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# KEDI ECONOMIC SURVEY

November 1, 1986

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SOURCES:

U.S.Department of Commerce first estimates of 1986:3, National Income and Product data, October 22, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, October 1986.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Moderate growth projected into 1987 for many areas of the economy.

### Prices

Oil prices have bottomed out. Look for slowly increasing consumer prices and business price increases. Inflation will be moderate.

### Employment & Labor

Continuing downward trend for Agriculture and Construction. Increases for nondurable manufacturing and some mining.

### Housing

Housing is winding down confirming KEDI's long standing prediction as Housing Starts and Permits Issued continue downward.

### Automobiles

Production and sales for passengers will be down in 1987. Light trucks will carry the load for carmakers.

### Budgets

First effects of tax reform appear in 1986:4 with larger sales and increase in orders for durables.

### Income

Moderate growth of personal income and personal disposable income are predicted for 1987-1988.

### Money & Credit

Data, again, show no relationship between the money supply, M1, and economic growth.

### Interest Rates, Yields & Securities Prices

KEDI anticipates interest rates will bottom out in the third quarter of 1987.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, and will continue into 1987. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2,6%; Japan 2.9%. | Jan 1985 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the November 1986 KEDI forecast.

* In 1986 and 1987 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.

* Forecast data for 1986-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following fiscal years.

* This year's export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986 and 1987 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3575.2 | 4041.6 | 4134.5 | 4254.4 |
| product, p. 5 | % change | 2.9 | 3.4 | 2.3 | 2.9 |
| Index of indust. | 1977=100 | 125.0 | 139.3 | 143.6 | 148.5 |
| prod., p. 5 | % change | 1.0 | 3.8 | 3.1 | 3.4 |
| Capacity | % | 79.7 | 81.3 | 80.5 | 79.8 |
| utiliz., p. 5 | % change | -.8 | .5 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 6.6 | 6.5 | 6.6 |
| rate, p. 5 | % change | -2.6 | -3.0 | 1.0 | .8 |
| Private housing | mil.units | 1.8 | 1.9 | 1.9 | 1.9 |
| starts, p. 5 | % change | 4.5 | 5.8 | -2.5 | 3.0 |
| Car sales, | mil.units | 10.9 | 11.3 | 11.2 | 11.7 |
| p. 5 | % change | -2.0 | 3.4 | -.5 | 4.3 |
| Implicit GNP | 1982=100 | 112.3 | 126.0 | 130.5 | 135.8 |
| price def., p. 9 | % change | 2.0 | 3.2 | 3.6 | 4.1 |
| Consumer Price | 1967=100 | 327.9 | 358.7 | 372.0 | 386.1 |
| Index, p. 9 | % change | 1.8 | 3.5 | 3.7 | 3.8 |
| Prod.Price Index | 1967=100 | 289.8 | 328.9 | 343.7 | 355.0 |
| (fin.goods),p.9 | % change | -1.4 | 4.1 | 4.5 | 3.3 |
| Federal Deficit | bil. $ | -200.1 | -151.2 | -129.3 | -108.9 |
| p. 19 | % change | 15.1 | -10.0 | -14.5 | -15.8 |
| Personal Income | bil. $ | 3314.5 | 4263.7 | 4570.6 | 4886.0 |
| p. 21 | % change | 5.1 | 7.0 | 7.2 | 6.9 |
| Prime Rate | % | 8.3 | 8.0 | 8.7 | 9.4 |
| p. 25 | % change | -12.2 | 6.9 | 9.0 | 8.4 |
| Mortgage Rate | % | 10.2 | 9.0 | 8.8 | 8.6 |
| p. 25 | % change | -19.6 | 3.6 | -3.0 | -2.1 |
| Currency+demand | bil. $ | 663.5 | 793.3 | 846.5 | 895.6 |
| deposits, p. 23 | % change | 11.8 | 6.2 | 6.7 | 5.8 |
| Commercial+ind. | bil. $ | 519.6 | 578.1 | 594.9 | 607.4 |
| loans, p. 23 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.3 | 90.0 | 90.2 |
| production | % change | -4.8 | -.1 | .8 | .2 |
| Electric power | mil.kw-hr | 2576 | 3243 | 3385.7 | 3558.4 |
| production | % change | 6.5 | 4.3 | 4.4 | 5.1 |
| Bituminous coal | mil.sh.tons | 896 | 939 | 973.1 | 984.0 |
| production | % change | .1 | 1.5 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2115 | 2155.2 | 2187.5 |
| output | % change | .9 | -1.6 | 1.9 | 1.5 |
| Retail sales | bil. $ | 1377.7 | 1719.9 | 1812.8 | 1934.3 |
| p. 7 | % change | 6.2 | 5.8 | 5.4 | 6.7 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

### 1986 FORECAST DATA

Percent Change from October 1986 Forecast

| | |
|---|---|
| + 2.94% | Index Indus. Prod. |
| + 2.68% | GNP |
| + 2.12% | Autos |
| + .82% | Capacity Util. |
| - 1.89% | Unemployment |
| - 4.03% | Private housing starts |

### MODERATE GROWTH PROJECTED INTO 1987 FOR MANY AREAS OF THE ECONOMY.

- Index of leading indicators rose from 179.3% in August to 180.1% in September. This indicates where the economy is headed 3-6 months down the road.
- Orders for durables:

  August: $103.85 bil.
  September: $108.99 bil.

  This is the largest single increase since November 1984. The increase is widespread over most industries. Excluding defense orders, nondefense orders rose by by 5.3%--a very good sign!
- Construction spending:

  August: $380.4 bil.
  September: $385.5 bil.

  This is the sharpest increase since April.
- Indications are that the turnaround in foreign trade is starting: Merchandise trade deficit narrowed to $112.56 bil. Imports of manufactured goods fell for the second consecutive month.
- Index of Industrial Production inched up by .1% in September. This increase is widespread as well.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem-ploy ment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 3575.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.1 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3683.3 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3 | 3683.3 | 125.1 | 6.92 | 79.8 | 1.763 | 11.5 |
| 4 | 3695.7 | 125.7 | 6.95 | 79.5 | 1.624 | 10.6 |
| YEAR | 3679.6 | 125.0 | 7.02 | 79.7 | 1.821 | 10.9 |
| % change from '85 | 2.9 | 1.0 | -2.6 | -.8 | 4.5 | -2.0 |
| 1987:1 | 3724.3 | 126.4 | 6.94 | 79.7 | 1.614 | 10.3 |
| 2 | 3751.2 | 127.2 | 6.90 | 79.8 | 1.741 | 10.6 |
| 3 | 3784.1 | 128.6 | 6.81 | 79.4 | 1.841 | 11.0 |
| 4 | 3820.3 | 132.5 | 6.86 | 80.1 | 1.714 | 10.5 |
| YEAR | 3770.0 | 128.7 | 6.88 | 79.8 | 1.728 | 10.6 |
| % change from '86 | 2.5 | 2.9 | -2.1 | .0 | -5.1 | -2.5 |
| 1988:1 | 3840.5 | 132.7 | 6.96 | 80.2 | 1.688 | 10.3 |
| 2 | 3867.2 | 133.5 | 6.87 | 80.4 | 1.810 | 10.8 |
| 3 | 3896.3 | 134.2 | 6.73 | 81.2 | 1.942 | 11.4 |
| 4 | 4030.7 | 136.4 | 6.62 | 81.8 | 1.870 | 11.2 |
| YEAR | 3908.7 | 134.2 | 6.79 | 80.9 | 1.828 | 10.9 |
| % change from '87 | 3.7 | 4.3 | -1.2 | 1.4 | 5.8 | 3.1 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| + 7.21% | Pers. Con. Exp. Services |
| + 6.62% | Pers. Con. Exp. Durables |
| + 4.38% | Retail Sales Total |
| + 4.08% | Pers. Con. Exp. Nondurable |
| + 3.06% | Retail Sales Nondurable |
| -10.18% | Retail Sales Durable |

Forecast data for consumer spending in 1986:4 show healthy gains in nondurables and services sectors. Some slowing down in durables (autos only) after the September-October surge.
Forecast for 1987: STRONG consumer spending will continue, though not as vigorous as in 1986. SLOWING DOWN: Car sales, with purchases of parts up. Building materials and home furnishings and household applicanes UP (in 1987 people will not build as many houses, but will spend on repairs, extensions, and improvements.)

In 1987 look for MODERATE increases in spending for nondurables, such as shoes, textile and apparel.

Spending on SERVICES will be strong, mainly in repairs and maintenance of durables, fast food services, entertainment, travel and leisure.

Christmas sales in 1986 will be stronger than 1985, mainly in big ticket items.

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

|  | *--Personal Cons. Expend.-** |  |  | ------Retail Sales-------* |  |  |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. |  |  |  |  |  |  |
| 1985* | 359.2 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1443.6 | 532.1 | 911.5 |
| 3 | 410.2 | 935.5 | 1453.6 | 1464.3 | 540.7 | 923.6 |
| 4 | 392.4 | 943.9 | 1469.9 | 1478.5 | 544.8 | 933.7 |
| YEAR | 384.3 | 934.4 | 1441.8 | 1449.3 | 536.0 | 913.3 |
| % change from '85 | 7.0 | 3.2 | 7.9 | 5.2 | 4.8 | 5.4 |
| 1987:1 | 394.6 | 955.1 | 1494.2 | 1489.0 | 550.2 | 938.8 |
| 2 | 405.1 | 965.1 | 1501.3 | 1513.8 | 560.0 | 953.8 |
| 3 | 409.7 | 976.2 | 1531.3 | 1457.3 | 580.2 | 877.1 |
| 4 | 412.5 | 989.4 | 1569.8 | 1580.0 | 589.7 | 990.3 |
| YEAR | 405.5 | 971.5 | 1524.1 | 1510.0 | 570.0 | 940.0 |
| % change from '86 | 5.5 | 4.0 | 5.7 | 4.2 | 6.3 | 2.9 |
| 1988:1 | 418.7 | 1022.6 | 1572.8 | 1589.7 | 585.4 | 1004.3 |
| 2 | 421.8 | 1037.1 | 1591.1 | 1614.3 | 595.7 | 1018.6 |
| 3 | 445.6 | 1052.4 | 1581.8 | 1639.5 | 609.8 | 1029.7 |
| 4 | 462.8 | 1069.6 | 1753.7 | 1659.1 | 620.2 | 1038.9 |
| YEAR | 437.2 | 1045.4 | 1624.8 | 1625.7 | 602.8 | 1022.9 |
| % change from '87 | 7.8 | 7.6 | 6.6 | 7.7 | 5.7 | 8.8 |

## 1.13 REAL GNP

See Table 1.13
Page 9

### 1986 FORECAST DATA

Percent Change from October 1986 Forecast

| | |
|---|---|
| + 4.58% | State Local Purch. |
| + 2.84% | Pers. Cons. Expend. |
| + 2.69% | GNP |
| + 2.43% | Federal Govt. Purch. |
| + .98% | Net Exports |
| + .75% | Gross Private Dom. Inv. |

FIRST ESTIMATE OF 1986:3 GNP, RELEASED BY U.S. COMMERCE DEPARTMENT SHOWS 2.4% GROWTH COMPARED TO .6% IN 1986:2.

The composition of GNP is not as good as it should have been:

GOOD NEWS for change in business, non-farm inventories (in bil. 1982$):

| | |
|---|---|
| 1986:1 | +37.0 |
| 1986:2 | +11.0 |
| 1986:3 | - 5.0 |

Inventories declined in general in the third quarter and not only in autos. Businesses have rebuilt their inventories, so expect inventories to go up in 1986:4. This means that the 1986:3 negative change in inventories has OPTICALLY decreased the GNP. In the fourth quarter inventories will go up pushing the GNP up with it.

No significant increase in expenditures of Federal Government on goods and services.

And now for some BAD news:

RECORD LEVEL FOR FOREIGN TRADE DEFICIT (IN BIL. 1982 $)

| | |
|---|---|
| 1986:1 | -125.9 |
| 1986:2 | -153.9 |
| 1986:3 | -164.6 |

Forecast data for 1986:4 and following quarters show that 1986:3 is the PEAK, and the deficit will start declining.

## TABLE 1.13
## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3575.2 | 2324.5 | 647.7 | -108.2 | 313.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3683.3 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3 | 3683.3 | 2450.4 | 648.6 | -164.4 | 329.3 | 419.5 |
| 4 | 3695.7 | 2442.3 | 658.2 | -160.4 | 334.6 | 421.0 |
| YEAR | 3679.6 | 2418.4 | 663.9 | -151.2 | 328.3 | 414.6 |
| % change from '85 | 2.9 | 4.0 | 2.5 | 39.7 | 4.7 | 4.3 |
| 1987:1 | 3724.3 | 2455.0 | 665.5 | -154.2 | 335.6 | 422.4 |
| 2 | 3751.2 | 2461.6 | 671.4 | -148.4 | 337.4 | 429.2 |
| 3 | 3784.1 | 2475.3 | 676.4 | -142.6 | 338.5 | 436.5 |
| 4 | 3820.3 | 2496.7 | 680.3 | -139.7 | 341.0 | 442.0 |
| YEAR | 3770.0 | 2472.2 | 673.4 | -146.2 | 338.1 | 432.5 |
| % change from '86 | 2.5 | 2.2 | 1.4 | -3.3 | 3.0 | 4.3 |
| 1988:1 | 3840.5 | 2430.0 | 682.2 | -138.4 | 342.6 | 445.1 |
| 2 | 3867.2 | 2525.6 | 684.8 | -136.2 | 344.7 | 448.3 |
| 3 | 3896.3 | 2539.7 | 692.5 | -133.6 | 346.5 | 451.2 |
| 4 | 4030.7 | 2666.5 | 693.4 | -131.7 | 347.2 | 455.3 |
| YEAR | 3908.7 | 2551.3 | 688.2 | -135.0 | 350.1 | 450.0 |
| % change from '87 | 3.7 | 3.2 | 2.2 | -7.7 | 3.5 | 4.0 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

OIL PRICES BOTTOMED OUT.

LOOK FOR SLOWLY INCREASING PRICES RESULTING IN CONSUMER AND BUSINESS PRICE INCREASES.

INFLATION IN 1987-1988 WILL BE MODERATE.

- * CPI in September up by .3% (excluding prices of food and energy). This is the same as August.
- * PPI in September (excluding prices of food and energy) remained at the same level as a year ago.
- * Consumer inflation:
  Main items pushing up prices in 1987-88 will be services. KEDI's forecast for prices of of all services calls for 1987 to go up by 5.9%, with 1988 up by 6.1%.
- * Business inflation:
  Prices of crude materials will go up by 4.8% in 1987, and 5.2% in 1988.
  Prices of semi-finished products up by 3.2% in 1987, and 4.8% in 1988.

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| + 4.24% | Producer Price Index |
| + 4.19% | State Local Purch. |
| + 3.11% | Pers. Cons. Expend. |
| + 2.80% | GNP |
| + 2.52% | Consumer Price Index |
| + 2.40% | Federal Govt. Purch. |

---

### TABLE 1.21
### PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.1 | 293.9 | 112.3 | 112.7 | 111.0 | 116.3 |
| 1986:1* | 327.3 | 292.3 | 113.7 | 103.1 | 111.0 | 118.7 |
| 2* | 326.5 | 288.3 | 114.0 | 103.5 | 111.8 | 119.3 |
| 3 | 328.2 | 288.4 | 115.0 | 114.3 | 111.1 | 120.3 |
| 4 | 329.5 | 290.2 | 115.5 | 114.9 | 112.1 | 121.5 |
| YEAR | 327.9 | 289.8 | 114.5 | 114.4 | 111.5 | 120.0 |
| % change from '85 | 1.8 | -1.4 | 2.0 | 1.5 | .5 | 3.1 |
| 1987:1 | 331.5 | 294.6 | 116.1 | 115.8 | 113.2 | 122.3 |
| 2 | 334.9 | 300.2 | 117.0 | 116.7 | 114.3 | 124.1 |
| 3 | 337.9 | 305.3 | 118.1 | 117.9 | 115.8 | 125.6 |
| 4 | 340.3 | 308.2 | 119.2 | 119.0 | 117.1 | 127.7 |
| YEAR | 336.1 | 302.1 | 117.6 | 117.3 | 115.1 | 124.9 |
| % change from '86 | 2.5 | 4.2 | 2.7 | 2.5 | 3.2 | 4.1 |
| 1988:1 | 343.5 | 311.3 | 120.6 | 124.0 | 118.2 | 128.9 |
| 2 | 345.7 | 313.8 | 121.5 | 120.8 | 119.5 | 130.0 |
| 3 | 347.2 | 317.9 | 122.1 | 121.3 | 120.7 | 132.4 |
| 4 | 349.8 | 320.7 | 124.0 | 123.2 | 122.3 | 134.2 |
| YEAR | 346.6 | 315.9 | 122.0 | 122.3 | 120.2 | 131.4 |
| % change from '87 | 3.1 | 4.6 | 3.8 | 4.2 | 4.4 | 5.2 |

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| + 8.99% | State Local Purch |
| + 6.06% | Pers. Cons. Expend. |
| + 5.57% | GNP |
| + 4.85% | Federal Govt. Purch. |
| + 3.50% | Net Exports |
| + 1.29% | Gross Private Dom. Inv. |

### ANOTHER MIXED BAG OF GOOD AND BAD NEWS IN DATA RELEASED BY U.S. COMMERCE DEPARTMENT FOR NOMINAL GNP:

In 1986:3, growth has resumed when compared to the slow down in 1986:2.
Federal Government spending on goods and services shows only small increase while inventories declined.

### RECORD DEFICIT IN FOREIGN TRADE:

Indications are that the deficit has peaked in the third quarter. HOWEVER, do not expect any drastic improvements immediately as it will take the deficit a long time to decline significantly because:

- * Imports of manufactured goods will keep declining at a very slow rate, and exports of manufactured goods will be improving at an even slower rate.
- * In 1987, imports of oil will continue increasing with no drop in imports of crude materials.

Mr. Malcolm Baldrige, Secretary of Commerce, predicts a $30-$40 billion drop in 1987 in the trade gap, but this looks too rosey. KEDI expects a drop of around $12 billion in 1987 (as measured by the National Income Accounts) and another $20 billion drop in 1988.

### TABLE 1.22
### NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----Gross National Product | | | | | -----* |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3 | 4234.4 | 2799.3 | 674.7 | -110.1 | 365.7 | 504.7 |
| 4 | 4268.5 | 2810.9 | 685.4 | -109.7 | 375.1 | 511.5 |
| YEAR | 4214.9 | 2768.2 | 688.9 | -104.5 | 366.0 | 497.5 |
| % change from '85 | 5.4 | 5.7 | 4.2 | 32.4 | 3.4 | 7.8 |
| 1987:1 | 4323.9 | 2843.9 | 691.1 | -107.6 | 379.9 | 516.6 |
| 2 | 4388.9 | 2871.5 | 704.4 | -105.3 | 385.6 | 532.6 |
| 3 | 4469.0 | 2917.2 | 712.8 | -101.2 | 392.0 | 548.2 |
| 4 | 4553.8 | 2971.7 | 715.8 | -97.4 | 399.3 | 564.4 |
| YEAR | 4433.9 | 2901.1 | 706.0 | -102.9 | 389.2 | 540.5 |
| % change from '86 | 5.2 | 4.8 | 2.5 | -1.6 | 6.3 | 8.6 |
| 1988:1 | 4631.6 | 3029.1 | 729.5 | -90.6 | 405.0 | 573.7 |
| 2 | 4698.6 | 3155.7 | 734.3 | -80.4 | 411.9 | 582.8 |
| 3 | 4757.4 | 3188.0 | 737.2 | -75.2 | 418.2 | 597.4 |
| 4 | 4998.1 | 3405.2 | 741.6 | -65.3 | 424.6 | 611.0 |
| YEAR | 4829.2 | 3207.2 | 735.6 | -77.9 | 414.9 | 591.2 |
| % change from '87 | 8.9 | 10.6 | 4.2 | -24.3 | 6.6 | 9.4 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

**1986 FORECAST DATA**

Percent Change from October 1986 Forecast

| | |
|---|---|
| + 2.90% | Non-Agri. |
| + 2.82% | Total Employed |
| + 2.65% | Civilian Labor Force |
| + 2.58% | Population |
| 0.00% | Agriculture |
| - 1.89% | Unemployment rate |

### THE 1987 EMPLOYMENT PICTURE

AGRICULTURE - continuing downward trend.

CONSTRUCTION - Down in private housing, office and plant space. Up slightly in public projects and roads, bridges, and airport construction and repairs.

NONDURABLE MANUFACTURING - Main increments in foods and kindred products, paper and products, printing and publishing, chemicals and products, and petroleum and coal products, and plastics. FLAT in lumber and wood, and electrical and nonelectrical machinery. PROBLEMS will persist in primary metals.

MINING - Small increments in coal mining and stone and nonmetalic ores. DEPRESSED levels in metallic ores and gas extraction.

SERVICES - Strong increases in employment in repairs and maintenance, hotels, motels, restaurants, auxilliary services to the business sector. SMALL increments in banking, legal, medical, and educational services. FLAT in real estate and insurance.

## TABLE 1.30
## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non-agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3 | 247.3 | 118.4 | 110.2 | 3.2 | 104.1 | 6.92 |
| 4 | 249.8 | 118.9 | 110.6 | 3.1 | 107.5 | 6.95 |
| YEAR | 246.9 | 118.0 | 109.9 | 3.2 | 106.7 | 7.02 |
| % change from '85 | 2.1 | 2.3 | 2.1 | -.8 | 2.7 | -2.60 |
| 1987:1 | 250.7 | 119.5 | 111.2 | 3.1 | 108.1 | 6.94 |
| 2 | 252.3 | 120.6 | 112.3 | 3.1 | 109.2 | 6.90 |
| 3 | 254.0 | 122.0 | 113.7 | 3.1 | 110.6 | 6.81 |
| 4 | 256.1 | 122.4 | 114.0 | 3.1 | 110.9 | 6.86 |
| YEAR | 253.3 | 121.1 | 112.8 | 3.1 | 109.7 | 6.88 |
| % change from '86 | 2.6 | 2.6 | 2.7 | -2.4 | 2.8 | -2.06 |
| 1988:1 | 257.5 | 123.0 | 114.4 | 3.1 | 111.3 | 6.96 |
| 2 | 259.6 | 123.9 | 115.4 | 3.0 | 112.4 | 6.87 |
| 3 | 261.4 | 125.2 | 116.8 | 3.0 | 113.8 | 6.73 |
| 4 | 263.5 | 126.5 | 118.1 | 3.0 | 115.1 | 6.62 |
| YEAR | 260.5 | 124.7 | 116.2 | 3.1 | 113.1 | 6.79 |
| % change from '87 | 2.9 | 2.9 | 2.9 | 0.0 | 3.1 | -1.20 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| + 6.38% | Single Family Existing |
| + 5.92% | Single Family New |
| - 2.47% | Permits |
| - 3.00% | Multiple Family Housing Starts |
| - 3.49% | Multiple Housing Starts |
| - 7.38% | Single Family Housing Starts |

HOUSING IS WINDING DOWN

CONFIRMING KEDI'S LONG

STANDING PREDICTION.

Housing Starts & Permits Issued:

| | Aug. 1986 | Sept. 1986 |
|---|---|---|
| Total | 1.818 | 1.680 |
| Single Family | 1.199 | 1.116 |
| Multi-Family | .619 | .564 |

Total housing starts were down by 7.6% in September over August, with single-family units off by 5.5% and multi-family by 8.9% Another indicator of the downward trends is in the drop of permits issued: off in August by 4% over July and again in September by 3.6% over August.

KEDI calls for further declines in 1987, especially apartment housing. Look for a new housing cycle to start in late 1988, with 1988 apartment housing to be lower than 1987.

Prices of houses will go up in 1987 with mortgage rates down. The Administration policy is to keep pushing mortgage rates down to save the housing industry from a deeper slump.

### TABLE 1.41
### HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts<br>mil. | Multi-family housing starts<br>mil. | Mobile home shipments<br>mil. | Permits authorized<br>mil. | 1-Fam. unit price new**<br>tho. $ | 1-Fam. unit price exist**<br>tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .283 | 1.735 | 101.0 | 90.3 |
| 1986:1* | 1.257 | .733 | .274 | 1.839 | 103.4 | 91.8 |
| 2* | 1.242 | .663 | .280 | 1.805 | 104.7 | 94.7 |
| 3 | 1.142 | .621 | .281 | 1.662 | 106.2 | 96.7 |
| 4 | 1.021 | .603 | .270 | 1.614 | 109.9 | 97.4 |
| YEAR | 1.165 | .655 | .276 | 1.730 | 106.1 | 95.2 |
| % change from '85 | 8.7 | -2.1 | -2.4 | -.3 | 5.0 | 5.4 |
| 1987:1 | 1.010 | .604 | .263 | 1.583 | 110.6 | 99.3 |
| 2 | 1.094 | .647 | .285 | 1.689 | 111.7 | 100.1 |
| 3 | 1.156 | .685 | .275 | 1.747 | 112.3 | 101.7 |
| 4 | 1.093 | .621 | .254 | 1.785 | 114.5 | 104.0 |
| YEAR | 1.088 | .639 | .269 | 1.701 | 112.3 | 101.3 |
| % change from '86 | -6.6 | -2.4 | -2.5 | -1.7 | 5.9 | 6.4 |
| 1988:1 | 1.056 | .632 | .259 | 1.625 | 115.3 | 105.1 |
| 2 | 1.123 | .687 | .272 | 1.731 | 117.2 | 106.2 |
| 3 | 1.268 | .674 | .295 | 1.842 | 119.5 | 107.4 |
| 4 | 1.205 | .665 | .290 | 1.806 | 121.8 | 108.6 |
| YEAR | 1.163 | .665 | .279 | 1.751 | 118.5 | 106.8 |
| % change from '87 | 6.9 | 3.9 | 3.6 | 2.9 | 5.5 | 5.5 |

*Historical data.

**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| + 5.00% | Imported Car Sales |
| + 1.43% | Total Light Truck Sales |
| - 1.30% | Shipments |
| - 1.85% | Total Car Sales |
| - 4.49% | Domestic Car Sales |
| - 5.26% | Dealer Inventory |

PRODUCTION AND SALES FOR PASSENGER CARS WILL BE DOWN IN 1987.

STRONG MARKET FOR LIGHT-DUTY TRUCKS WILL HELP KEEP AUTO MAKERS FROM A DEEPER SLUMP.

HEAVY-DUTY TRUCK DEMAND FOR 1987 WILL BE FLAT.

By the time the second half of 1988 comes rolling along the assembly lines, we will see some improvement in all three categories. KEDI's two year prediction of an auto slump through 1987 and into 1988 is coming to pass.

In 1987 expect prices of cars to go up an average of 6%, and in 1988 an additional 6.5%. There will be a weak market with low sales.

Do not expect too much from the anticipated spring and fall incentive programs in 1987. Effects of incentives have already dissipated--interest rates, in general are already too low, and prices cannot go any lower--ominous effects on profits for 1986 from the 2.9% financing fiasco in September and October.

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.1 | 8.4 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.8 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.7 | 7.9 | 3.6 |
| 3 | 11.5 | 8.2 | 3.3 | 1.5 | 8.0 | 3.7 |
| 4 | 10.6 | 7.2 | 3.1 | 1.8 | 7.6 | 3.4 |
| YEAR | 10.9 | 7.8 | 3.0 | 1.8 | 7.8 | 3.5 |
| % change from '85 | -2.0 | -7.7 | 8.9 | 38.5 | -7.1 | -4.7 |
| 1987:1 | 10.3 | 7.4 | 2.9 | 1.9 | 7.5 | 3.3 |
| 2 | 10.6 | 7.5 | 3.1 | 1.8 | 7.4 | 3.5 |
| 3 | 11.0 | 7.7 | 3.3 | 1.7 | 7.8 | 3.7 |
| 4 | 10.5 | 7.2 | 3.3 | 1.8 | 7.7 | 3.7 |
| YEAR | 10.6 | 7.4 | 3.1 | 1.8 | 7.6 | 3.5 |
| % change from '86 | -2.5 | -5.8 | 3.3 | 0.0 | -2.6 | .7 |
| 1988:1 | 10.3 | 7.0 | 3.3 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.4 | 8.0 | 3.4 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 7.9 | 3.3 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.7 | 3.3 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 3.1 | -.9 | 4.0 | -5.6 | 3.9 | .7 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

FIRST EFFECTS OF TAX REFORM APPEAR IN 1986:4 WITH LARGER SALES AND INCREASE IN ORDERS FOR DURABLES:

* Businesses try to complete construction and equipment purchases before year end.

* Consumers are stimulated to buy durables before 1986 ends.

Some economists worry that orders for durables and consumers high-ticket purchases will abate in the new year. KEDI does not think so, and that durable orders will continue to increase:

* Improved perspectives of exporters due to positive effect of lower international value of the dollar.

* Low interest rates will stimulate firms to continue in capital outlays.

* Low interest rates will keep consumers' interest in buying durables (except cars) such as home furnishings, household appliances, building materials, and others.

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| +23.32% | Corp. Profit Tax Accrued |
| +11.24% | State Local Corp. Tax Accrued |
| +11.16% | Federal Income Tax |
| + 8.99% | State Surplus/ Deficit |
| + 7.29% | State Income Tax |
| -16.16% | State Surplus/ Deficit |

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----FEDERAL----------* | | | *---STATE AND LOCAL----* | | |
|---|---|---|---|---|---|---|
| | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3 | 365.9 | 77.1 | -239.4 | 152.7 | 19.4 | 61.2 |
| 4 | 386.3 | 79.3 | -219.6 | 155.0 | 20.4 | 63.2 |
| YEAR | 363.9 | 75.7 | -224.7 | 151.6 | 18.9 | 63.4 |
| % change from '85 | 3.7 | 11.8 | 12.3 | 6.8 | 4.1 | 7.0 |
| 1987:1 | 396.2 | 87.2 | -190.3 | 158.4 | 20.1 | 65.3 |
| 2 | 401.5 | 92.1 | -189.7 | 161.9 | 21.0 | 67.0 |
| 3 | 408.2 | 96.7 | -185.6 | 165.3 | 21.4 | 70.5 |
| 4 | 410.3 | 98.4 | -178.2 | 166.7 | 21.6 | 73.6 |
| YEAR | 404.1 | 93.6 | -185.9 | 163.1 | 21.0 | 69.1 |
| % change from '86 | 11.0 | 23.6 | -17.2 | 7.5 | 11.5 | 9.1 |
| 1988:1 | 414.5 | 101.2 | -176.5 | 168.2 | 22.0 | 71.4 |
| 2 | 418.4 | 103.2 | -170.3 | 170.3 | 23.1 | 72.8 |
| 3 | 423.2 | 103.8 | -165.2 | 172.1 | 23.4 | 73.5 |
| 4 | 428.7 | 105.6 | -160.1 | 174.7 | 24.5 | 74.6 |
| YEAR | 421.2 | 103.5 | -168.0 | 171.3 | 23.2 | 73.1 |
| % change from '87 | 4.2 | 10.5 | -9.6 | 5.1 | 10.6 | 5.8 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change from October 1986 Forecast

| | |
|---|---|
| + 9.93% | Corp. After Tax Profit |
| + 6.40% | Personal Income |
| + 5.78% | Personal Disp. Income |
| + 5.43% | Personal Savings |
| + 5.26% | Comp. of Empl. |
| + 3.47% | Average Weekly Earnings |

## MODERATE GROWTH OF PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME ARE PREDICTED FOR 1987 - 1988.

U. S. Department of Commerce calculates Personal Savings as Personal Disposable Income minus Personal Consumption Expenditures and some small items. It does not take into account:

* Increase in income from loans.

* Increase of savings because of appreciation of equities and net work.

* Some other items.

Thus, the U. S. Commerce Department data on Personal Savings may be misleading. For example, September increase in sales of cars is reported as increase in SALES of cars--that's right! However, Personal Disposable Income has not been raised by the amount of credit extended to buyers. So, PDI is reported unadjusted, but personal consumption of the PDI is recorded as full consumption. This is the reason for the seemingly SHARP decline in Personal Savings.

---

TABLE 1.60

INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2476.9 | 138.0 | 153.1 | 393.9 |
| 3 | 3501.6 | 2983.0 | 2487.3 | 142.1 | 87.5 | 393.7 |
| 4 | 3502.4 | 2961.1 | 2521.6 | 144.9 | 150.2 | 398.0 |
| YEAR | 3484.4 | 2968.8 | 2486.8 | 140.1 | 134.1 | 394.2 |
| % change from '85 | 5.1 | 5.0 | 5.0 | 6.6 | -6.4 | 3.2 |
| 1987:1 | 3651.9 | 3097.3 | 2567.3 | 150.2 | 154.0 | 400.1 |
| 2 | 3697.8 | 3134.4 | 2602.2 | 155.7 | 160.2 | 407.2 |
| 3 | 3758.5 | 3185.0 | 2656.3 | 158.2 | 163.7 | 410.1 |
| 4 | 3821.5 | 3244.5 | 2707.4 | 161.0 | 166.5 | 415.3 |
| YEAR | 3732.4 | 3165.3 | 2633.3 | 156.3 | 161.1 | 408.2 |
| % change from '86 | 7.1 | 6.6 | 5.9 | 11.6 | 20.1 | 3.5 |
| 1988:1 | 3888.9 | 3306.2 | 2764.3 | 160.3 | 168.9 | 417.2 |
| 2 | 4026.3 | 3437.6 | 2799.7 | 164.7 | 172.4 | 420.5 |
| 3 | 4070.3 | 3475.0 | 2863.5 | 167.5 | 176.3 | 424.3 |
| 4 | 4301.4 | 3698.0 | 2910.4 | 171.2 | 180.5 | 426.1 |
| YEAR | 4071.7 | 3479.2 | 2834.5 | 165.9 | 174.5 | 422.0 |
| % change from '87 | 9.1 | 9.9 | 7.6 | 6.2 | 8.3 | 3.4 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change
from
October 1986
Forecast

| | |
|---|---|
| + 9.93% | Time Deposits |
| + 7.60% | Currency & Demand Deposits |
| + 6.32% | Consumer Install. Credit |
| + 5.68% | Comm. & Indust. Loans at Banks |
| + 1.69% | Large Denom. Time Deposits |
| - 1.22% | Mortg. at S & L Assns. |

DATA, AGAIN, SHOW NO RELATIONSHIP BETWEEN THE MONEY SUPPLY, M1, AND ECONOMIC GROWTH.

Forecast for money supply, M1, calls for 11.8% growth in 1986 and 7.5% in 1987 over 1986. This is compared to the expected 5.4% growth in the nominal GNP in 1986, and 5.2% growth in 1987.

KEDI agrees with Fed's deemphasizing the M1 as a guide for short-run policy actions. In our October issue, KEDI outlined the reasons why, in the current phase of the cycle, there is no relationship between M1 and nominal GNP (change the banking regulations, change in the U.S. Banking system, facts of recent history: large Federal deficits vs. declining inflation and rapid increase in money supply etc.)

Another reason why the growth of the money supply, M1, cannot be compared to GNP is because M1 serves the ENTIRE ECONOMY, that is, it serves the area of FINAL products (GNP) and the area of INTERMEDIATE products. In the present economic conditions, GNP represents 50% of the economy, with the other half made up of intermediate products. Often the GNP behaves differently than INTERMEDIATE products. This is why M1 cannot be used as a guideline when it represents only one half of the economy.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit s.a. | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 535.1 | 493.9 | 436.5 | 586.1 |
| 1986:1* | 629.8 | 2581.3 | 551.5 | 502.1 | 450.4 | 577.0 |
| 2* | 657.8 | 2645.7 | 572.9 | 508.0 | 449.7 | 589.7 |
| 3 | 679.6 | 2731.5 | 592.8 | 512.0 | 450.1 | 598.1 |
| 4 | 686.9 | 2782.3 | 595.7 | 519.6 | 451.2 | 611.2 |
| YEAR | 663.5 | 2685.2 | 595.7 | 519.6 | 451.2 | 611.2 |
| % change from '85 | 11.8 | 8.1 | 11.3 | 5.3 | 3.4 | 4.3 |
| 1987:1 | 692.8 | 2860.5 | 604.9 | 527.1 | 457.4 | 617.4 |
| 2 | 710.4 | 2918.6 | 611.3 | 534.0 | 460.3 | 625.6 |
| 3 | 721.6 | 2985.4 | 624.5 | 539.5 | 467.5 | 633.1 |
| 4 | 729.5 | 3040.2 | 632.4 | 547.3 | 470.2 | 638.6 |
| YEAR | 713.6 | 2951.2 | 632.4 | 547.3 | 470.2 | 638.6 |
| % change from '86 | 7.5 | 9.9 | 6.2 | 5.3 | 4.2 | 4.5 |
| 1988:1 | 736.4 | 3104.5 | 640.7 | 550.2 | 472.1 | 641.2 |
| 2 | 743.2 | 3162.7 | 650.1 | 553.4 | 474.6 | 643.5 |
| 3 | 749.7 | 3241.5 | 664.3 | 556.1 | 478.2 | 650.4 |
| 4 | 758.8 | 3306.4 | 675.5 | 560.2 | 483.6 | 658.7 |
| YEAR | 747.0 | 3203.8 | 676.5 | 560.2 | 483.6 | 658.7 |
| % change from '87 | 4.7 | 8.6 | 7.0 | 2.4 | 2.8 | 3.1 |

---

*Historical data. n.s.a: not seasonally adusted.
s.a.: seasonally adjusted at annual rates.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

**1986 FORECAST DATA**

Percent Change from October 1986 Forecast

| | |
|---|---|
| + 5.28% | S & P's 500 Avg. |
| -10.20% | Aaa . Corp. Bond Rate |
| -11.40% | Conv. Mortg. Rate |
| -12.12% | Prime Rate |
| -13.92% | Treas. Bills 3 mo. Yield |
| -20.96% | 20 yr. Govt. Bonds Yield |

KEDI ANTICIPATES INTEREST RATES WILL BOTTOM OUT IN THE THIRD QUARTER OF 1987.

Chase Econometrics calls for a cyclical low in 1986:4, and Data Resources in 1987:1.

3 MO. TREASURY BILLS (Comparison)

| | Chase | DRI | KEDI |
|---|---|---|---|
| 1986:4 | 5.30% | 5.23% | 5.80% |
| 1987:1 | 5.30% | 5.08% | 5.63% |
| 1987:2 | 5.50% | 5.20% | 5.45% |
| 1987:3 | 5.70% | 5.37% | 5.20% |
| 1987:4 | 5.70% | 5.60% | 5.24% |

* KEDI forecast data show that in 1987 the economy, especially manufacturing, will still not be strong enough to allow interest rates to go up with such weaknesses as automobiles, housing, slow recuperation of exports, and high imports.

* The combined impact of higher interest rates and new tax legislation that is less favorable to business would create problems in the business sector. KEDI feels the FED would not allow this to happen.

* Major trading countries have adopted LOWER INTEREST RATE policies. It would be illogical to suddenly start increasing interest rates in the U.S. economy.

### TABLE 1.80
### INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 12.68 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.41 | 11.13 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.52 | 10.26 | 9.00 | 7.67 | 240.58 |
| 3 | 6.01 | 7.68 | 9.74 | 8.86 | 6.93 | 245.11 |
| 4 | 5.80 | 7.50 | 9.67 | 8.68 | 6.85 | 250.36 |
| YEAR | 6.24 | 8.28 | 10.20 | 9.07 | 7.62 | 239.44 |
| % change from '85 | -16.6 | -12.2 | -19.6 | -19.9 | -30.0 | 28.2 |
| 1987:1 | 5.63 | 7.38 | 9.55 | 8.31 | 6.55 | 248.85 |
| 2 | 5.45 | 7.26 | 9.11 | 8.19 | 6.11 | 250.81 |
| 3 | 5.20 | 7.22 | 8.85 | 8.08 | 5.72 | 253.77 |
| 4 | 5.24 | 7.28 | 8.64 | 7.89 | 5.68 | 255.46 |
| YEAR | 5.38 | 7.29 | 9.04 | 8.12 | 6.01 | 252.22 |
| % change from '86 | -13.8 | -12.0 | -11.4 | -10.5 | -21.0 | 5.3 |
| 1988:1 | 5.26 | 7.32 | 8.60 | 7.81 | 5.62 | 251.31 |
| 2 | 5.31 | 7.38 | 8.63 | 7.92 | 5.74 | 256.27 |
| 3 | 5.42 | 7.51 | 8.75 | 8.04 | 5.83 | 260.32 |
| 4 | 5.67 | 7.59 | 8.89 | 8.12 | 5.92 | 263.54 |
| YEAR | 5.42 | 7.45 | 8.72 | 7.97 | 5.78 | 257.86 |
| % change from '87 | .7 | 2.3 | -3.5 | -1.8 | -3.9 | 2.2 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Private Housing Starts has been selected for comparison. The actual figure appears in the Survey of Current Business, August 1986 issue, blue pages (monthly, U. S. Department of Commerce, Washington, D.C.). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Private Housing Starts (mil. units)
Actual figure: 1.742

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State Univ., p. 15 | 11/84 | 1.648 | - 5.4 |
| First Interstate Bank of Calif., p.16 | 11/19/84 | 1.660 | - 4.8 |
| Harris Bank, p. 16 | 11/19/84 | 1.710 | - 1.9 |
| American Statistical Assn. and Nat'l Bureau of Economic Research, p. 17 | 12/84 | 1.660 | - 4.8 |
| Core States Financial Corp.*, p. 18 | 12/84 | 1.613 | - 7.5 |
| Mellon Bank, p. 19 | 12/84 | 1.677 | - 3.8 |
| U.S. Chamber of Commerce, p. 20 | 12/84 | 1.800 | + 3.3 |
| UCLA Business Forecasting Project, p. 22 | 12/13/84 | 1.757 | + .8 |
| Alex A. Burkholder, WLS-TV-ABC, Chicago, IL, p. 23 | 12/15/84 | 1.500 | -13.9 |
| Fidelity Bank, p. 25 | 12/20/84 | 1.740 | - .2 |
| Evans Economics, p. 26 | 12/21/84 | 1.720 | - 1.3 |
| Data Resources, p. 27 | 12/23/84 | 1.846 | + 5.9 |
| Chase Econometrics | 12/26/84 | 1.590 | - 8.8 |
| Manufacturers Hanover Trust, p. 29 | 12/26/84 | 1.807 | + 3.7 |
| Wharton Econometric Forecasting Associates, p. 30 | 12/26/84 | 1.800 | + 3.3 |
| The Journal of Business Forecasting, p. 31 | 1/85 | 1.660 | - 5.3 |
| Kent Economic and Development Institute, p. 32 | 1/1/85 | 1.633 | - 6.3 |
| First Nat'l Bank of Chicago, p. 33 | 1/7/85 | 1.713 | - 1.7 |
| Morgan Guaranty Trust Co., p. 34 | 1/10/85 | 1.874 | + 7.5 |
| Standard & Poor's Corp., p. 35 | 1/10/85 | 1.846 | + 5.9 |
| Merrill Lynch Economics, p. 36 | 1/14/85 | 1.728 | - .9 |
| Chemical Bank, p. 37 | 1/15/85 | 1.680 | - 3.6 |
| The Equitable Life Assurance Society of the U.S., p. 38 | 1/15/85 | 1.780 | + 2.1 |
| Shearson Lehman/American Express, p. 39 | 1/15/85 | 1.593 | - 8.6 |
| Money Market Services, Inc. | 1/22/85 | 1.660 | - 4.8 |
| Armco, Inc. | 1/24/86 | 1.645 | - 5.6 |

* Calculated as average of four quarterly data.

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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**KENT ECONOMIC AND DEVELOPMENT INSTITUTE, INC.**

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# KEDI ECONOMIC SURVEY

December 1, 1986

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SOURCES:

U.S.Department of Commerce second estimates of 1986:3 National Income and Product data, November 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, November, 1986.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Slow moderate growth near 3% in 1987. Consumer spending still strong though not as strong as in 1986.

### Prices

Low inflation will continue throughout 1987 with consumer inflation at 2.5% and business inflation at 4.2%.

### Employment & Labor

Do not look for any substantial decline in the unemployment rate or the number of unemployed.

### Housing

Housing starts will be lower in 1987 than in 1986, but not enough to be a factor that may ignite recessionary trends.

### Automobiles

Compared to 1986, 1987 will see less domestic production of cars, lower sales, and inventories of new cars will be uncomfortably high.

### Budgets

The targets of the Gramm-Rudman federal budget deficit reduction will be met in 1987 on the expenditures side with receipts weaker.

### Income

Moderate, regular gains throughout the year in line with expected growth of the economy and employment.

### Money & Credit

The Federal Reserve might tighten up on torrid growth of money supply but not enough to induce upward pressure on short term interest rates.

### Interest Rates, Yields & Securities Prices

KEDI maintains its assumption that interest rates will remain at low levels throughout 1987.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1986, the weighted price of oil will stabilize; in 1987 it will increase slightly and continue at that level in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue into 1987. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1984-1990 in major industrial countries are anticipated: West Germany 3.1%; Italy 2.4%; Great Britain 2.5%; France 2.6%; Japan 2.9%. | Jan 1985 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the December 1986 KEDI forecast.

* In 1986 and 1987 moderate growth is expected.

* An upward trend in 1987 is anticipated. It will continue throughout 1988 - 1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* Financial outlook is optimistic.

* Federal budget deficits will keep declining in 1986 and the following fiscal years.

* This year's export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3575.2 | 4023.4 | 4107.9 | 4206.5 |
| product, p. 5 | % change | 3.0 | 3.1 | 2.1 | 2.4 |
| Index of indust. | 1977=100 | 125.0 | 139.0 | 143.3 | 147.9 |
| prod., p. 5 | % change | 1.0 | 3.6 | 3.1 | 3.2 |
| Capacity | % | 79.7 | 81.0 | 80.2 | 79.4 |
| utiliz., p. 5 | % change | -.9 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 6.6 | 6.5 | 6.6 |
| rate, p. 5 | % change | -2.5 | -3.0 | 1.0 | .8 |
| Private housing | mil.units | 1.8 | 1.9 | 1.9 | 1.9 |
| starts, p. 5 | % change | 4.3 | 5.2 | -2.5 | 3.0 |
| Car sales, | mil.units | 11.2 | 11.3 | 11.2 | 11.6 |
| p. 5 | % change | 1.4 | 3.1 | -.8 | 4.0 |
| Implicit GNP | 1982=100 | 112.3 | 126.8 | 131.3 | 136.7 |
| price def., p. 9 | % change | 2.0 | 3.2 | 3.6 | 4.1 |
| Consumer Price | 1967=100 | 328.5 | 358.8 | 372.1 | 386.2 |
| Index, p. 9 | % change | 2.0 | 3.5 | 3.7 | 3.8 |
| Prod.Price Index | 1967=100 | 289.9 | 328.9 | 343.7 | 355.0 |
| (fin.goods),p.9 | % change | -1.4 | 4.1 | 4.5 | 3.3 |
| Federal Deficit | bil. $ | -200.1 | -151.0 | -129.9 | -110.3 |
| p. 19 | % change | 15.1 | -10.0 | -14.0 | -15.1 |
| Personal Income | bil. $ | 3314.5 | 4291.3 | 4600.2 | 4917.7 |
| p. 21 | % change | 5.1 | 7.1 | 7.2 | 6.9 |
| Prime Rate | % | 8.3 | 8.0 | 8.7 | 9.4 |
| p. 25 | % change | -11.6 | 6.9 | 9.0 | 8.4 |
| Mortgage Rate | % | 9.8 | 9.0 | 8.8 | 8.9 |
| p. 25 | % change | -11.6 | 3.6 | -3.0 | 2.0 |
| Currency+demand | bil. $ | 670.0 | 848.6 | 905.4 | 958.0 |
| deposits, p. 23 | % change | 12.9 | 6.6 | 6.7 | 5.8 |
| Commercial+ind. | bil. $ | 519.5 | 579.8 | 596.6 | 609.1 |
| loans, p. 23 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.3 | 90.0 | 90.2 |
| production | % change | -4.8 | -.1 | .8 | .2 |
| Electric power | mil.kw-hr | 2576 | 3210 | 3351.2 | 3522.2 |
| production | % change | 6.5 | 4.1 | 4.4 | 5.1 |
| Bituminous coal | mil.sh.tons | 873 | 930 | 973.1 | 984.0 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2316 | 2360.0 | 2395.4 |
| output | % change | .9 | 1.8 | 1.9 | 1.5 |
| Retail sales | bil. $ | 1377.7 | 1755.1 | 1851.7 | 1975.7 |
| p. 7 | % change | 6.2 | 5.8 | 5.5 | 6.7 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | | |
|---|---|---|
| + | .99% | Private housing starts |
| + | .62% | Unemployment |
| + | .14% | GNP |
| + | .04% | Index Indus. Prod. |
| - | .47% | Autos |
| - | .06% | Capacity Util. |

SLOW MODERATE GROWTH NEAR 3%
IN 1987 INFLUENCED BY:

CONSUMER SPENDING still strong though not as strong as in 1986. Gradual decline in FOREIGN TRADE DEFICIT. MANUFACTURING resuscitating from 1986 lows. Strong increments in DEFENSE industries.

The impact of HOUSING and AUTOS on 1987 economic growth will be much smaller than in 1986. Both segments will be weaker in 1987, but not weak enough to push the economy downward.

PRIMARY METALS and FABRICATED METAL PRODUCTS, ELECTRICAL and NONELECTRICAL MACHINERY, and AEROSPACE will perform better in 1987 than in 1986 in the DURABLES MANUFACTURING segments.
In the NONDURABLES look for CHEMICALS, FOODS, PAPER and PAPER PRODUCTS, PRINTING and PUBLISHING and PETROLEUM PRODUCTS to improve their performance in 1987. Expect a continuous fast growth of the SERVICE segment and moderate performance of the CONSTRUCTION industry--less housing and nonresidential construction--but more road construction and repairs as well as more public projects.

Add to that a slowly declining unemployment rate, declining federal deficit, low inflation with interest rates at low levels, and a stable performance of the stock market.

All of this adds up to MODERATE, SLOW GROWTH in 1987.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem-ployment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 3575.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.1 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3683.3 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3 | 3687.3 | 125.1 | 6.90 | 79.7 | 1.763 | 13.2 |
| 4 | 3696.8 | 125.7 | 7.01 | 79.4 | 1.607 | 10.4 |
| YEAR | 3680.8 | 125.0 | 7.03 | 79.7 | 1.816 | 11.2 |
| % change from '85 | 3.0 | 1.0 | -2.5 | -.9 | 4.3 | 1.4 |
| 1987:1 | 3726.9 | 126.4 | 7.02 | 79.7 | 1.593 | 10.2 |
| 2 | 3756.2 | 127.3 | 6.94 | 79.8 | 1.735 | 10.5 |
| 3 | 3789.1 | 128.7 | 6.86 | 79.4 | 1.831 | 11.0 |
| 4 | 3828.3 | 132.6 | 6.87 | 80.1 | 1.708 | 10.5 |
| YEAR | 3775.1 | 128.8 | 6.92 | 79.8 | 1.717 | 10.6 |
| % change from '86 | 2.6 | 3.0 | -1.6 | .1 | -5.5 | -6.2 |
| 1988:1 | 3837.5 | 132.7 | 6.96 | 80.2 | 1.656 | 10.3 |
| 2 | 3860.3 | 133.5 | 6.87 | 80.4 | 1.810 | 10.8 |
| 3 | 3890.3 | 134.1 | 6.73 | 81.2 | 1.924 | 11.4 |
| 4 | 4021.7 | 136.3 | 6.62 | 81.8 | 1.856 | 11.2 |
| YEAR | 3902.4 | 134.2 | 6.79 | 80.9 | 1.812 | 10.9 |
| % change from '87 | 3.4 | 4.2 | -1.8 | 1.4 | 5.5 | 3.6 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + 8.29% | Pers. Con. Exp. Services |
| + 1.77% | Retail Sales Durables |
| + .97% | Retail Sales Total |
| + .49% | Retail Sales Nondurable |
| + .21% | Pers. Cons. Exp. Nondurable |
| - .05% | Pers. Con. Exp. Durable |

OPTIMISTIC OUTLOOK FOR 1987 CONSUMER SPENDING AND RETAIL SALES, BUT SLOWER THAN 1986 IN BOTH AREAS.

Main increments in 1987 retail sales are expected in home-building materials (Maintenance and improvement), household furnishings and fixtures, and apparel and clothing stores and gasoline stations

Regular increments in sales of food stores--approximately the same percent increase in 1987 as in 1986.

Automobile sales will be weaker in 1987 than in 1986.

Expect STRONG increases in the service sector, mainly: fast food, repairs, entertainment, transportation and travel.

While retail sales fell a record" 5% in October, retail sales were up by 5.3% in September with a net increase of .3% Excluding September incentives by auto makers, retail sales rose in October by .2-.3%, a good gain, after a September rise of .1%

—

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-* | | | *------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1985* | 359.2 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3 | 401.7 | 932.2 | 1462.0 | 1469.8 | 559.4 | 910.4 |
| 4 | 392.0 | 944.0 | 1474.2 | 1481.4 | 554.8 | 926.6 |
| YEAR | 382.1 | 933.6 | 1444.9 | 1451.9 | 543.2 | 908.7 |
| % change from '85 | 6.4 | 3.1 | 8.1 | 5.4 | 6.2 | 4.9 |
| 1987:1 | 394.7 | 956.7 | 1514.1 | 1498.4 | 560.4 | 938.0 |
| 2 | 405.0 | 967.4 | 1531.1 | 1528.6 | 570.5 | 958.1 |
| 3 | 409.3 | 979.3 | 1564.2 | 1473.7 | 590.6 | 883.1 |
| 4 | 412.2 | 990.7 | 1596.2 | 1598.0 | 598.8 | 999.2 |
| YEAR | 405.3 | 973.5 | 1551.4 | 1524.7 | 580.1 | 944.6 |
| % change from '86 | 6.1 | 4.3 | 7.4 | 5.0 | 6.8 | 3.9 |
| 1988:1 | 418.5 | 1020.1 | 1612.0 | 1647.7 | 610.4 | 1037.3 |
| 2 | 420.1 | 1031.3 | 1620.1 | 1634.3 | 617.7 | 1016.6 |
| 3 | 444.0 | 1048.6 | 1617.3 | 1663.5 | 629.8 | 1033.7 |
| 4 | 460.1 | 1060.5 | 1781.5 | 1690.2 | 635.4 | 1054.8 |
| YEAR | 435.7 | 1040.1 | 1657.7 | 1658.9 | 623.3 | 1035.6 |
| % change from '87 | 7.5 | 6.8 | 6.9 | 8.8 | 7.5 | 9.6 |

## 1.13 REAL GNP

See Table 1.13
Page 9

GOOD IMPROVEMENT IN REAL GNP DATA FOR 1986:3, SECOND REVISION, NOVEMBER 20, COMPARED TO FIRST ESTIMATE IN OCTOBER.

- 1986:3 Growth at 2.9%, up from 2.4% in first estimate

Main factors contributing to this improved estimate are lower foreign trade gap, higher Federal government, and State and Local government purchases of goods and services, and higher personal consumption expenditures.

In 1987 KEDI expects a slightly lower rate of growth compared to 1986 because of weak autos and housing, a low rate of business capital formation, and small decrements in the foreign trade gap. A more vigorous growth of the economy is expected to occur no earlier than in 1988.

### 1986 FORECAST DATA

Percent Change from November 1986 Forecast

| | |
|---|---|
| + .53% | Federal Local Purch. |
| + .14% | GNP |
| + .17% | Net Exports |
| - .17% | State Local Purch. |
| - .44% | Gross Private Dom. Inv. |
| - 2.70% | Pers. Cons. Expend. |

### TABLE 1.13
### REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3575.2 | 2324.5 | 647.7 | -108.2 | 313.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3683.3 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3 | 3687.3 | 2450.4 | 648.1 | -163.6 | 335.4 | 420.6 |
| 4 | 3696.8 | 2442.9 | 656.1 | -160.5 | 337.2 | 421.1 |
| YEAR | 3680.8 | 2418.6 | 663.2 | -151.0 | 330.5 | 415.0 |
| % change from '85 | 3.0 | 4.0 | 2.4 | 39.5 | 5.4 | 4.4 |
| 1987:1 | 3726.9 | 2460.9 | 660.5 | -155.1 | 338.1 | 422.5 |
| 2 | 3756.2 | 2465.9 | 669.4 | -148.1 | 339.6 | 429.4 |
| 3 | 3789.1 | 2483.8 | 672.5 | -142.9 | 340.7 | 435.0 |
| 4 | 3828.3 | 2507.3 | 679.4 | -139.7 | 341.2 | 440.1 |
| YEAR | 3775.1 | 2405.4 | 670.5 | -146.4 | 339.9 | 431.8 |
| % change from '86 | 2.6 | -.5 | 1.1 | -3.0 | 2.9 | 4.0 |
| 1988:1 | 3837.5 | 2430.0 | 681.2 | -138.0 | 342.6 | 444.1 |
| 2 | 3860.3 | 2520.5 | 683.7 | -136.1 | 344.7 | 447.5 |
| 3 | 3890.3 | 2535.4 | 691.5 | -133.5 | 346.6 | 450.3 |
| 4 | 4021.7 | 2659.1 | 692.6 | -131.7 | 347.3 | 454.4 |
| YEAR | 3902.4 | 2550.8 | 687.2 | -134.8 | 350.1 | 449.1 |
| % change from '87 | 3.4 | 6.0 | 2.5 | -7.9 | 3.0 | 4.0 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + .74% | Pers. Cons. Expend. |
| + .55% | GNP |
| + .22% | Consumer Price Index |
| + .11% | Federal Govt. Purch. |
| + .04% | State Local Purch. |
| + .02% | Producer Price Index |

LOW INFLATION WILL CONTINUE THROUGHOUT 1987 WITH THE CONSUMER INFLATION AT 2.5%, AS MEASURED BY THE CPI, AND BUSINESS INFLATION AT 4.2% AS MEASURED BY THE PPI FOR FINISHED GOODS.

* The 1987 economy will keep a cool head. Growth is forecast to approximate 1986. No significant changes in capacity utilization are forecast, with consequent idle capacity.

* Unemployment will remain fairly high and supplies of commodities--domestic and imported--will be plentiful.

* Consumer demand will not be as strong as in 1986.

* Impacts of "weaker" dollar on prices will not be significant. KEDI shares the opinion of a growing number of economists that the dollar has depreciated just a bit, but certainly not the 20-30% being reported. Actual depreciation is around 4-5%--too insignificant to have a major impact on domestic price levels.

THIS ADDS UP TO A LOW RATE OF INFLATION FOR 1987.

## TABLE 1.21
## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *--------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.1 | 293.9 | 112.3 | 112.7 | 111.0 | 116.3 |
| 1986:1* | 327.3 | 292.3 | 113.7 | 103.1 | 111.0 | 118.7 |
| 2* | 326.5 | 288.3 | 114.0 | 103.5 | 111.8 | 119.3 |
| 3 | 328.9 | 287.9 | 115.0 | 114.1 | 111.1 | 120.2 |
| 4 | 331.4 | 291.1 | 115.7 | 115.0 | 112.2 | 121.3 |
| YEAR | 328.5 | 289.9 | 114.6 | 114.4 | 111.5 | 119.9 |
| % change from '85 | 2.0 | -1.4 | 2.0 | 1.5 | .5 | 3.1 |
| 1987:1 | 333.2 | 294.9 | 116.7 | 116.4 | 113.2 | 122.3 |
| 2 | 335.9 | 300.2 | 117.8 | 133.8 | 114.5 | 124.2 |
| 3 | 337.9 | 305.3 | 118.9 | 118.9 | 115.9 | 125.7 |
| 4 | 340.4 | 308.2 | 119.6 | 119.6 | 117.3 | 127.6 |
| YEAR | 336.8 | 302.1 | 118.2 | 122.2 | 115.2 | 125.0 |
| % change from '86 | 2.5 | 4.2 | 3.2 | 6.8 | 3.3 | 4.2 |
| 1988:1 | 343.6 | 311.4 | 121.5 | 125.5 | 118.2 | 128.9 |
| 2 | 345.7 | 313.8 | 122.2 | 121.9 | 119.6 | 130.0 |
| 3 | 347.4 | 317.9 | 123.0 | 122.7 | 120.8 | 132.4 |
| 4 | 349.9 | 320.7 | 124.6 | 124.2 | 122.4 | 134.2 |
| YEAR | 346.6 | 315.9 | 122.8 | 123.6 | 120.2 | 131.4 |
| % change from '87 | 2.9 | 4.6 | 3.9 | 1.1 | 4.4 | 5.1 |

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

MORE FAVORABLE FIGURES RELEASED BY COMMERCE DEPARTMENT IN SECOND ESTIMATES FOR 1986:3 WHEN COMPARED TO FIRST ESTIMATE.

- * Lower foreign trade gap.
- * No change in rate of inflation as measured by the GNP price deflators.
- * No changes in price deflators of components of GNP.

OUTLOOK FOR 1987.

- * Nominal GNP shows a 5.8% increase over 1986 compared to expected 5.5% increase in 1986 over 1985.
- * The Gross Private Domestic Investment Expenditures will remain the weakest spot in the structure of GNP. Forecast data show a 2.4% increment in 1987 over 1986, as compared to the expected 4.2% in 1986 over 1985. This is due to the disappointingly low business expenditures on plants, new housing and a low inventories build-up.

1986
FORECAST
DATA

Percent Change from November 1986 Forecast

| | |
|---|---|
| + 4.42% | Pers. Cons. Expend. |
| + .69% | GNP |
| + .63% | Federal Govt. Purch. |
| - .06% | Gross Private Dom. Inv. |
| - .17% | State Local Purch. |
| - .29% | Net Exports |

## TABLE 1.22
## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3 | 4241.1 | 2795.9 | 674.8 | -108.2 | 372.7 | 505.7 |
| 4 | 4277.2 | 2810.2 | 685.0 | -107.1 | 378.3 | 510.8 |
| YEAR | 4218.2 | 2766.8 | 688.8 | -103.4 | 368.6 | 497.5 |
| % change from '85 | 5.5 | 5.6 | 4.2 | 31.0 | 4.1 | 7.9 |
| 1987:1 | 4349.3 | 2865.5 | 691.1 | -106.8 | 382.7 | 516.7 |
| 2 | 4424.8 | 3299.9 | 704.1 | -105.0 | 388.8 | 533.3 |
| 3 | 4505.2 | 2952.8 | 712.0 | -101.2 | 394.9 | 546.8 |
| 4 | 4578.6 | 2999.1 | 715.2 | -97.4 | 400.2 | 561.6 |
| YEAR | 4464.5 | 3029.3 | 705.6 | -102.6 | 391.7 | 539.6 |
| % change from '86 | 5.8 | 9.5 | 2.4 | -.7 | 6.3 | 8.5 |
| 1988:1 | 4662.6 | 3050.6 | 725.0 | -90.4 | 405.0 | 572.4 |
| 2 | 4717.3 | 3071.5 | 732.1 | -80.3 | 412.3 | 581.8 |
| 3 | 4785.1 | 3109.9 | 735.4 | -75.1 | 418.7 | 596.2 |
| 4 | 5011.0 | 3302.1 | 739.2 | -65.2 | 425.1 | 609.8 |
| YEAR | 4793.2 | 3151.8 | 732.9 | -77.8 | 415.3 | 590.0 |
| % change from '87 | 7.4 | 4.0 | 3.9 | -24.2 | 6.0 | 9.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + .62% | Unemployment rate |
| 0.00% | Agriculture |
| - .01% | Population |
| - .21% | Civilian Labor Force |
| - .29% | Non-Agri. |
| - .29% | Total Employed |

DO NOT LOOK FOR ANY SUBSTANTIAL DECLINE IN THE UNEMPLOYMENT RATE OR THE NUMBER OF UNEMPLOYED.

There will be a continuous strong growth of employment in the SERVICE SECTOR, mainly fast food, hotels, motels, restaurants, repairs, medical, hospital, educational, and legal services and agriculture. Transportation will show small but persistent declines. Construction leveling off with mining at low levels except coal mining. Manufacturing of durables will remain at persistent low level with small increments for nondurables.

## TABLE 1.30
## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Popu-lation | Civil. labor force | Total | Agri-cult. | Non-agric. | Unem-ploy-ment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3 | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4 | 249.8 | 118.7 | 110.4 | 3.1 | 107.3 | 7.01 |
| YEAR | 246.9 | 117.9 | 109.7 | 3.2 | 106.5 | 7.03 |
| % change from '85 | 2.1 | 2.2 | 2.0 | -.8 | 2.5 | -2.46 |
| 1987:1 | 250.7 | 119.1 | 110.7 | 3.1 | 107.6 | 7.02 |
| 2 | 252.3 | 120.2 | 111.9 | 3.1 | 108.8 | 6.94 |
| 3 | 254.0 | 121.8 | 113.4 | 3.1 | 110.3 | 6.86 |
| 4 | 256.1 | 122.3 | 113.9 | 3.1 | 110.8 | 6.87 |
| YEAR | 253.3 | 120.8 | 112.5 | 3.1 | 109.4 | 6.92 |
| % change from '86 | 2.6 | 2.5 | 2.5 | -2.4 | 2.7 | -1.56 |
| 1988:1 | 257.5 | 123.0 | 114.4 | 3.1 | 111.3 | 6.96 |
| 2 | 259.6 | 123.9 | 115.4 | 3.0 | 112.4 | 6.87 |
| 3 | 261.4 | 125.2 | 116.8 | 3.0 | 113.8 | 6.73 |
| 4 | 263.5 | 126.5 | 118.1 | 3.0 | 115.1 | 6.62 |
| YEAR | 260.5 | 124.7 | 116.2 | 3.1 | 113.1 | 6.79 |
| % change from '87 | 2.9 | 3.1 | 3.2 | 0.0 | 3.4 | -1.84 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

HOUSING STARTS WILL BE LOWER IN 1987 THAN IN 1986, BUT NOT LOW ENOUGH TO BE REGARDED AS A FACTOR THAT MAY IGNITE RECESSIONARY TRENDS. Factor contributing to weaker performance is that housing is in a contractionary phase--winding down. Expansion in housing is expected to start no earlier than 1988. The expected 1987 downward trend will be accelerated somewhat by the impact of new tax legislation keeping apartment housing at low levels. Expect LESS new housing in 1987, a bit less of single-family and a lot less of multi-family housing. Expect SIGNIFICANT increases in prices of new housing and EXISTING housing.

### 1986 FORECAST DATA

Percent Change from November 1986 Forecast

| | |
|---|---|
| + .44% | Single Family Existing |
| + .04% | Single Family New |
| - .15% | Single Family Existing |
| - 2.23% | Multiple Housing Starts |
| - 2.35% | Multiple Family Housing Starts |
| - 2.87% | Permits Issued |

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home ship-ments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .283 | 1.735 | 101.0 | 90.3 |
| 1986:1* | 1.257 | .733 | .274 | 1.839 | 103.4 | 91.8 |
| 2* | 1.242 | .663 | .280 | 1.805 | 104.7 | 94.7 |
| 3 | 1.142 | .602 | .278 | 1.678 | 106.2 | 96.7 |
| 4 | 1.021 | .586 | .265 | 1.564 | 109.9 | 97.3 |
| YEAR | 1.165 | .646 | .274 | 1.722 | 106.1 | 95.1 |
| % change from '85 | 8.7 | -3.4 | -3.1 | -.8 | 5.0 | 5.3 |
| 1987:1 | 1.012 | .581 | .253 | 1.514 | 110.6 | 99.1 |
| 2 | 1.098 | .637 | .280 | 1.665 | 111.8 | 100.1 |
| 3 | 1.164 | .667 | .269 | 1.704 | 112.3 | 101.4 |
| 4 | 1.097 | .611 | .250 | 1.726 | 114.7 | 104.0 |
| YEAR | 1.093 | .624 | .263 | 1.652 | 112.3 | 101.2 |
| % change from '86 | -6.2 | -3.4 | -4.1 | -4.0 | 5.9 | 6.3 |
| 1988:1 | 1.026 | .630 | .259 | 1.620 | 115.3 | 105.1 |
| 2 | 1.125 | .685 | .273 | 1.731 | 117.4 | 106.1 |
| 3 | 1.250 | .674 | .296 | 1.848 | 119.5 | 107.4 |
| 4 | 1.191 | .665 | .291 | 1.817 | 121.9 | 108.3 |
| YEAR | 1.148 | .663 | .280 | 1.754 | 118.5 | 106.7 |
| % change from '87 | 5.1 | 6.3 | 6.4 | 6.2 | 5.5 | 5.5 |

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1986
FORECAST
DATA

Percent Change from November 1986 Forecast

|  |  |
|---|---|
| + 1.61% | Imported Car Sales |
| 0.00% | Dealer Inventory |
| 0.00% | Domestic Car Sales |
| - .47% | Total Car Sales |
| - .66% | Shipments |
| - 2.14% | Total Light Truck Sales |

JUST LIKE THE HOUSING PICTURES, AUTOS ARE WINDING DOWN. Compared to 1986, 1987 will see less domestic production of cars, lower sales, and inventories of new cars at uncomfortably high levels through the year.

Expect substantial increases in prices of 1987 models.

KEDI anticipates that the 1987 rounds of incentives by automakers will not be as effective as in 1986 because:

- Interest rates on car loans cannot be chopped to rock bottom after the fiasco in September 1986.
- Light-duty truck market will remain strong, but FLAT with no increases in sales for either domestic or imported.
- Heavy trucks will remain stable, similar to light trucks.

# TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.1 | 8.4 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.8 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.7 | 7.9 | 3.5 |
| 3 | 13.2 | 9.7 | 3.5 | 1.1 | 8.2 | 3.6 |
| 4 | 10.4 | 7.2 | 3.0 | 1.4 | 7.5 | 3.3 |
| YEAR | 11.2 | 8.1 | 3.1 | 1.4 | 7.8 | 3.5 |
| % change from '85 | 1.4 | -3.3 | 9.8 | 7.7 | -6.8 | -6.8 |
| 1987:1 | 10.2 | 7.3 | 2.9 | 1.8 | 7.4 | 3.3 |
| 2 | 10.5 | 7.4 | 3.1 | 1.8 | 7.3 | 3.5 |
| 3 | 11.0 | 7.7 | 3.3 | 1.7 | 7.8 | 3.5 |
| 4 | 10.5 | 7.2 | 3.3 | 1.8 | 7.7 | 3.4 |
| YEAR | 10.6 | 7.4 | 3.1 | 1.8 | 7.5 | 3.4 |
| % change from '86 | -6.2 | -8.7 | 2.4 | 28.6 | -3.5 | -.7 |
| 1988:1 | 10.3 | 7.0 | 3.3 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.4 | 8.0 | 3.4 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 7.9 | 3.3 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.7 | 3.3 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 3.6 | -.4 | 4.0 | -5.6 | 4.6 | 4.4 |

---

*Historical data.

**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + 1.88% | State Surplus/ Deficit |
| + .24% | State Local Corp. Tax Accrued |
| + .20% | State Income Tax |
| - .70% | Surplus/ Deficit |
| - .98% | Federal Income Tax |
| - 1.04% | Corp. Profit Tax Accrued |

THE TARGETS OF THE GRAMM-RUDMAN FEDERAL BUDGET DEFICIT REDUCTION WILL BE MET IN 1987 ON THE EXPENDITURES SIDE. HOWEVER, THE RECEIPT SIDE IS PREDICTED WEAKER THAN THE ADMINISTRATION ANTICIPATES.

It does not seem likely that the target for the current fiscal year--a deficit of $144 billion with a $10 billion leeway will be achieved.

KEDIs forecast for State and Local budgets is optimistic with a significant increase in the cumulative surplus.

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-----FEDERAL | ----------- | * | *---STATE AND LOCAL | ---- | * |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3 | 365.8 | 77.2 | -205.8 | 153.1 | 19.5 | 64.3 |
| 4 | 386.1 | 79.0 | -204.6 | 155.1 | 20.4 | 66.2 |
| YEAR | 363.8 | 75.7 | -212.5 | 151.8 | 18.9 | 64.9 |
| % change from '85 | 3.7 | 11.7 | 6.2 | 6.9 | 4.3 | 9.6 |
| 1987:1 | 393.0 | 84.2 | -190.1 | 158.6 | 20.1 | 68.3 |
| 2 | 397.3 | 92.0 | -187.2 | 161.9 | 21.0 | 69.1 |
| 3 | 403.0 | 96.2 | -183.1 | 165.8 | 21.5 | 70.6 |
| 4 | 407.3 | 98.1 | -178.0 | 167.4 | 21.6 | 73.6 |
| YEAR | 400.1 | 92.6 | -184.6 | 163.4 | 21.1 | 70.4 |
| % change from '86 | 10.0 | 22.4 | -13.1 | 7.7 | 11.5 | 8.5 |
| 1988:1 | 411.5 | 100.3 | -176.0 | 168.6 | 22.0 | 75.4 |
| 2 | 417.2 | 103.0 | -170.1 | 170.3 | 23.1 | 77.6 |
| 3 | 423.0 | 106.6 | -165.0 | 172.2 | 23.4 | 78.5 |
| 4 | 428.7 | 105.1 | -160.1 | 174.7 | 24.7 | 79.4 |
| YEAR | 420.1 | 103.8 | -167.8 | 171.4 | 23.3 | 77.7 |
| % change from '87 | 5.0 | 12.0 | -9.1 | 4.9 | 10.7 | 10.4 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + 1.76% | Corp. After Tax Profit |
| + .81% | Personal Disp. Income |
| + .59% | Personal Income |
| + .10% | Comp. of Empl. |
| + .04% | Average Weekly Earnings |
| - .88% | Personal Savings |

FORECAST DATA FOR PERSONAL AND PERSONAL DISPOSABLE 1987 SHOW MODERATE, REGULAR GAINS THROUGHOUT THE YEAR IN LINE WITH OVERALL EXPECTED GROWTH OF THE ECONOMY AND EMPLOYMENT.

| | Pers. Income | Pers. Disp. Income | GNP in current $ |
|---|---|---|---|
| | (% changes over previous year) | | |
| 1986 | 5.1 | 5.0 | 5.5 |
| 1987 | 7.8 | 7.5 | 5.8 |

Personal Saving Rate will improve slightly compared to 1986, but will still remain at a low level.

Corporate profits will show significant improvement, in general, when compared to 1986. After tax profits for the economy are forecast to go up by 12.7%. Detailed forecast data show that the expected impact of new tax laws on profits of corporations will not be significant, and certainly not as devastating as some glum forecasters attempt to depict.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3 | 3501.6 | 2982.7 | 2507.3 | 144.0 | 90.4 | 393.7 |
| 4 | 3500.7 | 2959.5 | 2521.7 | 147.5 | 149.3 | 397.2 |
| YEAR | 3484.0 | 2968.4 | 2494.3 | 141.2 | 134.6 | 394.0 |
| % change from '85 | 5.1 | 5.0 | 5.3 | 7.4 | -6.1 | 3.1 |
| 1987:1 | 3669.1 | 3117.5 | 2569.3 | 152.6 | 153.8 | 400.1 |
| 2 | 3722.6 | 3163.4 | 2604.2 | 158.7 | 160.1 | 407.0 |
| 3 | 3785.3 | 3216.5 | 2659.4 | 161.4 | 161.6 | 410.5 |
| 4 | 3840.7 | 3266.0 | 2710.7 | 163.5 | 163.2 | 415.8 |
| YEAR | 3754.4 | 3190.9 | 2635.9 | 159.1 | 159.7 | 408.4 |
| % change from '86 | 7.8 | 7.5 | 5.7 | 12.7 | 18.6 | 3.6 |
| 1988:1 | 3904.1 | 3324.0 | 2769.2 | 160.1 | 168.0 | 417.4 |
| 2 | 3938.0 | 3350.5 | 2807.6 | 164.5 | 172.4 | 420.5 |
| 3 | 3989.5 | 3394.3 | 2869.8 | 167.5 | 176.6 | 425.6 |
| 4 | 4195.6 | 3592.2 | 2919.4 | 171.4 | 180.9 | 428.0 |
| YEAR | 4006.8 | 3415.2 | 2841.5 | 165.9 | 174.5 | 422.9 |
| % change from '87 | 6.7 | 7.0 | 7.8 | 4.3 | 9.3 | 3.6 |

---

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + 4.19% | Currency & Demand Deposits |
| + .15% | Comm. & Indust. Loans at Banks |
| + .13% | Consumerr Install. Credit |
| - .35% | Time Deposits |
| - 2.80% | Mortg. at S & L Assns. |
| - 4.23% | Large Denom. Time Deposits |

EXPECT THE FEDERAL RESERVE TO TIGHTEN UP ON THE TORRID GROWTH OF MONEY SUPPLY, BUT NOT ENOUGH TO INDUCE UPWARD PRESSURE ON SHORT TERM INTEREST RATES.

KEDI's 1987 outlook for money and credit calls for a slowdown in the of monetary and credit aggregates when compared to 1986.

KEDI anticipates that the Federal Reserve will be relying more on data on money supply M2 and M3 because these are more closely tied to economic developments than M1.

Forecast data for M2 and M3 show regular and not excessive upward movements in real GNP and 5-6% in nominal GNP.

Expect slowing down in CONSUMER CREDIT, mainly car loans, MORTGAGE CREDIT, and modest increases in CREDIT CARD debt.

COMMERCIAL AND INDUSTRIAL loans show a slow upward trend.

KEDI does not anticipate enough UP or DOWN in the economy to pressure the Federal Reserve to tighten or loosen monetary and credit policies in 1987.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit s.a. | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 535.1 | 493.9 | 436.5 | 585.5 |
| 1986:1* | 629.8 | 2581.3 | 550.9 | 502.1 | 450.4 | 577.1 |
| 2* | 657.8 | 2645.7 | 567.7 | 508.0 | 449.7 | 567.4 |
| 3 | 685.6 | 2720.9 | 588.9 | 512.0 | 447.1 | 578.2 |
| 4 | 706.7 | 2772.3 | 595.9 | 519.5 | 445.3 | 589.2 |
| YEAR | 670.0 | 2680.1 | 595.9 | 519.5 | 445.3 | 589.2 |
| % change from '85 | 12.9 | 7.9 | 11.4 | 5.3 | 2.0 | .6 |
| 1987:1 | 721.5 | 2850.1 | 604.8 | 527.1 | 443.4 | 597.4 |
| 2 | 738.4 | 2908.2 | 611.3 | 534.3 | 444.2 | 503.5 |
| 3 | 751.5 | 2975.3 | 624.6 | 539.5 | 447.8 | 613.4 |
| 4 | 762.5 | 3030.2 | 633.2 | 548.1 | 450.3 | 620.7 |
| YEAR | 743.5 | 2940.9 | 633.2 | 548.1 | 450.3 | 620.7 |
| % change from '86 | 11.0 | 9.7 | 6.3 | 5.5 | 1.1 | 5.3 |
| 1988:1 | 776.4 | 3094.5 | 640.6 | 550.2 | 452.2 | 628.2 |
| 2 | 789.3 | 3152.1 | 650.4 | 553.5 | 454.5 | 635.6 |
| 3 | 799.7 | 3231.6 | 664.2 | 556.1 | 458.3 | 640.2 |
| 4 | 818.8 | 3296.2 | 676.7 | 561.8 | 463.5 | 648.7 |
| YEAR | 796.0 | 3193.6 | 676.7 | 561.8 | 463.5 | 648.7 |
| % change from '87 | 7.1 | 8.6 | 6.9 | 2.5 | 2.9 | 4.5 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1986
FORECAST
DATA

Percent Change
from
November 1986
Forecast

| | |
|---|---|
| + 2.54% | 20 yr. Govt. Bonds Yield |
| + .15% | S & P's 500 Avg. |
| - .03% | Aaa Corp. Bond Rate |
| - .27% | Prime Rate |
| - 1.08% | Conv. Mortg. Rate |
| - 4.09% | Treas. Bills 3 mo. Yield |

KEDI MAINTAINS ITS ASSUMPTION THAT INTEREST RATES WILL REMAIN AT LOW LEVELS THROUGHOUT 1987. Some further declines will take place in the first half of 1987, specifically for consumer installment credit and short-term business loans. Expect more significant declines in long-term rates and yields, mainly long-term government bonds, corporate bonds and mortgages throughout the year.

The stock and bond markets will give a strong performance on both markets. No significant UPS or DOWNS are predicted in 1987. Slow, gradual and steady growth in stock and bond prices are foreseen in 1987.

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES

Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3 | 5.48 | 7.85 | 9.67 | 8.72 | 7.02 | 245.21 |
| 4 | 5.26 | 7.50 | 9.60 | 8.63 | 6.87 | 250.47 |
| YEAR | 5.97 | 8.33 | 9.83 | 9.02 | 7.64 | 239.89 |
| % change from '85 | -20.2 | -11.6 | -11.6 | -20.3 | -29.8 | 28.4 |
| 1987:1 | 5.23 | 7.38 | 9.53 | 8.30 | 6.65 | 248.95 |
| 2 | 5.15 | 7.20 | 9.01 | 8.19 | 6.21 | 251.92 |
| 3 | 5.02 | 7.22 | 8.70 | 8.09 | 5.92 | 253.85 |
| 4 | 5.24 | 7.28 | 8.53 | 7.89 | 5.87 | 255.72 |
| YEAR | 5.16 | 7.27 | 8.94 | 8.12 | 6.16 | 252.61 |
| % change from '86 | -13.6 | -12.8 | -9.0 | -10.0 | -19.4 | 5.3 |
| 1988:1 | 5.26 | 7.32 | 8.62 | 7.81 | 5.72 | 252.32 |
| 2 | 5.31 | 7.38 | 8.65 | 7.92 | 5.74 | 256.29 |
| 3 | 5.43 | 7.56 | 8.76 | 8.04 | 5.84 | 260.34 |
| 4 | 5.65 | 7.63 | 8.89 | 8.12 | 5.92 | 263.55 |
| YEAR | 5.41 | 7.47 | 8.73 | 7.97 | 5.80 | 258.12 |
| % change from '87 | 4.9 | 2.8 | -2.4 | -1.8 | -5.8 | 2.2 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Private Housing Starts has been selected for comparison. The actual figure appears in the Survey of Current Business, August 1986 issue, blue pages (monthly, U. S. Department of Commerce, Washington, D.C.). Forecast data are in Business Forecasts 1985 (Federal Reserve Bank of Richmond, Virginia, February 1985). KEDI's forecast has been taken from the KEDI Economic Survey, Dec. 1, 1984, Vol. 10, No. 2, p. 17. At that time, the Business Forecasts 1985 published KEDI's forecast of domestically produced cars only. The following table shows the predictions of forecasters and deviations of forecast data.

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS
Passenger Car Sales (mil. units)
Actual figure: 11.1

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| Georgia State Univ., p. 15 | 11/84 | 10.6 | - 4.5 |
| First Interstate Bank of Calif., p.16 | 11/19/84 | 10.5 | - 5.4 |
| Core States Financial Corp.*, p. 18 | 12/84 | 10.3 | - 7.2 |
| U.S. Chamber of Commerce, p. 20 | 12/84 | 11.3 | + 1.8 |
| UCLA Business Forecasting Project, p. 22 | 12/13/84 | 11.0 | - .9 |
| Evans Economics, p. 26 | 12/21/84 | 10.4 | - 6.3 |
| Data Resources, p. 27 | 12/23/84 | 10.7 | - 3.6 |
| Chase Econometrics | 12/26/84 | 10.3 | - 7.8 |
| Wharton Econometric Forecasting Associates, p. 30 | 12/26/84 | 10.5 | - 5.4 |
| The Journal of Business Forecasting, p. 31 | 1/85 | 10.5 | - 5.3 |
| Kent Economic and Development Institute | 1/1/85 | 10.6 | - 4.5 |
| First Nat'l Bank of Chicago, p. 33 | 1/7/85 | 10.5 | - 5.4 |
| Chemical Bank, p. 37 | 1/15/85 | 10.6 | - 2.7 |
| The Equitable Life Assurance Society of the U.S., p. 38 | 1/15/85 | 10.6 | - 4.5 |
| Shearson Lehman/American Express, p. 39 | 1/15/85 | 10.7 | - 3.6 |
| Money Market Services, Inc. | 1/22/85 | 10.5 | - 5.4 |
| AmeriTrust Company, p. 42 | 1/25/86 | 10.4 | - 6.3 |

* Calculated as average of four quarterly data.

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | SCB, Blue pages |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

1/21/87 B4950-1 A

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# KEDI ECONOMIC SURVEY

January 2, 1987

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SOURCES:

U.S.Department of Commerce third estimates of 1986:3 National Income and Product data, December 20, 1986.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, December, 1986.

The latest available data on prices, employment, industrial and financial developments.

---

## 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

---

### Real Growth

Economic growth will slow down somewhat in 1987 compared to 1986. Expect 2.5% growth compared to 2.9% in 1986.

### Prices

Inflation will remain under control through 1987 with plentiful labor, commodities and capacity to keep the lid on.

### Employment & Labor

Employment forecast shows steady gains in line with increases in total labor force.

### Housing

November housing starts lowest since October 1984, and down 3.4% from November 1985.

### Automobiles

Import sales will continue to gain bigger share of market in 1987 as consumer buying mood turns to foreign cars.

### Budgets

Forecast data show that the overall impact of tax reform on businesses will be mixed.

### Income

Personal income and personal disposable income both show fairly healthy growth in line with nominal GNP.

### Money & Credit

The experience of the past two years has shown that inflation has been reduced while the money supply has grown faster than ever.

### Interest Rates, Yields & Securities Prices

Expect some further declines in interest rates in the first half of the year and stabilization in the second half.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue into 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the January 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1986 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3575.2 | 4014.2 | 4106.5 | 4205.1 |
| product, p. 5 | % change | 2.9 | 3.0 | 2.3 | 2.4 |
| Index of indust. | 1977=100 | 125.0 | 138.6 | 143.0 | 147.9 |
| prod., p. 5 | % change | 1.0 | 3.4 | 3.2 | 3.4 |
| Capacity | % | 79.7 | 81.0 | 80.2 | 79.4 |
| utiliz., p. 5 | % change | -.9 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 6.7 | 6.5 | 6.6 |
| rate, p. 5 | % change | -2.5 | -1.3 | 1.0 | .8 |
| Private housing | mil.units | 1.8 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | 3.5 | 4.5 | -2.5 | 3.4 |
| Car sales, | mil.units | 11.4 | 11.3 | 11.2 | 11.6 |
| p. 5 | % change | 2.5 | 3.0 | -.8 | 4.0 |
| Implicit GNP | 1982=100 | 112.3 | 126.8 | 131.4 | 136.8 |
| price def., p. 9 | % change | 2.0 | 3.3 | 3.6 | 4.1 |
| Consumer Price | 1967=100 | 328.4 | 357.6 | 370.1 | 383.8 |
| Index, p. 9 | % change | 2.0 | 3.1 | 3.5 | 3.7 |
| Prod.Price Index | 1967=100 | 289.9 | 328.4 | 343.2 | 354.5 |
| (fin.goods),p.9 | % change | -1.4 | 4.1 | 4.5 | 3.3 |
| Federal Deficit | bil. $ | -200.1 | -137.5 | -117.5 | -96.3 |
| p. 19 | % change | 15.1 | -12.3 | -14.5 | -18.1 |
| Personal Income | bil. $ | 3314.5 | 4275.2 | 4574.5 | 4908.4 |
| p. 21 | % change | 5.1 | 6.9 | 7.0 | 7.3 |
| Prime Rate | % | 8.3 | 8.0 | 8.8 | 9.5 |
| p. 25 | % change | -11.6 | 6.9 | 9.0 | 8.4 |
| Mortgage Rate | % | 9.9 | 9.1 | 8.8 | 9.0 |
| p. 25 | % change | -11.2 | 3.6 | -2.7 | 2.0 |
| Currency+demand | bil. $ | 669.7 | 847.5 | 904.3 | 956.8 |
| deposits, p. 23 | % change | 12.8 | 6.6 | 6.7 | 5.8 |
| Commercial+ind. | bil. $ | 519.0 | 583.4 | 600.3 | 612.9 |
| loans, p. 23 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.3 | 90.0 | 90.2 |
| production | % change | -4.8 | -.1 | .8 | .2 |
| Electric power | mil.kw-hr | 2576 | 3210 | 3351.2 | 3522.2 |
| production | % change | 6.5 | 4.1 | 4.4 | 5.1 |
| Bituminous coal | mil.sh.tons | 873 | 930 | 973.1 | 984.0 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2316 | 2360.0 | 2395.4 |
| output | % change | .9 | 1.8 | 1.9 | 1.5 |
| Retail sales | bil. $ | 1377.7 | 1757.4 | 1857.6 | 1976.5 |
| p. 7 | % change | 6.2 | 5.9 | 5.7 | 6.4 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| + 1.24% | Unemployment |
| + .24% | Autos |
| - .04% | GNP |
| - .06% | Capacity Util. |
| - .23% | Index Indus. Prod. |
| - .38% | Private Housing Starts |

ECONOMIC GROWTH WILL SLOW DOWN SOMEWHAT IN 1987 COMPARED TO 1986.

It will drop from expected rate 2.9-3.0% in 1986 to approximately 2.5% in 1987 for these reasons:
* Strong consumer demand will persist, though not as strong as in 1986.
* Strong housing, but not as strong as in 1986.
* Good level of car sales though not as good as in 1986.

This adds up to MODERATE growth in 1987 with no declines or recession.

The expected growth will be MORE BALANCED than in 1986:
* Lower Federal deficit and lower foreign trade gap.
* Improved performance of manufacturing, low inflation, low interest rates, further gains in employment and strong stock and bond markets are predicted.

KEDIs moderately optimistic outlook is supported by the fact that there are no prerecession signals in the economy.
* There is and will be enough idle capacity, unemployed workers, and supplies of commodities to keep the economy from overheating.
* Fiscal policy is and will not be restrictive.
* Consumer demand and buying power will grow, saving will be adequate and the growth of consumer debt not too high.

### TABLE 1.11
### SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unemployment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 3575.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.1 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3683.3 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3* | 3686.4 | 125.1 | 6.90 | 79.7 | 1.744 | 13.2 |
| 4 | 3695.7 | 125.7 | 7.01 | 79.4 | 1.574 | 10.9 |
| YEAR | 3680.3 | 125.0 | 7.03 | 79.7 | 1.803 | 11.4 |
| % change from '85 | 2.9 | 1.0 | -2.5 | -.9 | 3.5 | 2.5 |
| 1987:1 | 3724.2 | 126.4 | 7.02 | 79.7 | 1.545 | 10.3 |
| 2 | 3756.0 | 127.4 | 6.98 | 79.8 | 1.704 | 10.7 |
| 3 | 3788.2 | 128.7 | 6.92 | 79.4 | 1.813 | 11.0 |
| 4 | 3826.0 | 131.5 | 6.94 | 80.1 | 1.712 | 10.5 |
| YEAR | 3773.6 | 128.5 | 6.96 | 79.8 | 1.694 | 10.6 |
| % change from '86 | 2.5 | 2.8 | -1.0 | .1 | -6.1 | -6.6 |
| 1988:1 | 3833.1 | 132.3 | 6.96 | 80.2 | 1.664 | 10.3 |
| 2 | 3857.4 | 133.4 | 6.87 | 80.4 | 1.810 | 10.8 |
| 3 | 3886.2 | 134.1 | 6.73 | 81.2 | 1.924 | 11.4 |
| 4 | 4012.4 | 136.3 | 6.62 | 81.8 | 1.853 | 11.2 |
| YEAR | 3897.3 | 134.0 | 6.79 | 80.9 | 1.813 | 10.9 |
| % change from '87 | 3.3 | 4.3 | -2.4 | 1.4 | 7.0 | 2.8 |

---

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| + 3.42% | Retail Sales Nondurable |
| + 2.12% | Retail Sales Total |
| + .20% | Pers. Con. Exp. Nondurable |
| + .09% | Pers. Con. Exp. Services |
| 00.00% | Retail Sales Durable |
| - .35% | Pers. Con. Exp. Durable |

CONSUMER SPENDING WILL REMAIN STRONG BUT NOT EXCESSIVELY.

Tax cuts will put more money into consumers pockets, and consumer purchasing power will be augmented by consumer loans, but not as much as in 1986.

A major increase in 1987 consumer spending is expected on services: health care, transportation, repairs, entertainment, education and travel are the most significant increments in spending in this category.

Consumer durables spending will also increase--expect strong consumer demand for household durables, furniture and fixtures, appliances, and household equipment and accessories.

Regular increases are forecast for purchases of textiles, apparel and leather and plastic products.

Forecast data for retail trade point to good performance of food stores, department stores, house-building materials, specialty stores, and gasoline stations.

### TABLE 1.12

### CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | Personal Cons. Expend. | | | Retail Sales | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1985* | 359.2 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3* | 414.5 | 932.8 | 1452.4 | 1470.2 | 559.4 | 910.8 |
| 4 | 398.3 | 948.1 | 1469.9 | 1485.6 | 555.3 | 930.3 |
| YEAR | 386.9 | 934.8 | 1441.5 | 1453.0 | 543.3 | 909.8 |
| % change from '85 | 7.7 | 3.3 | 7.9 | 5.5 | 6.2 | 5.0 |
| 1987:1 | 392.0 | 958.1 | 1518.5 | 1499.7 | 560.4 | 939.3 |
| 2 | 402.1 | 967.9 | 1539.2 | 1539.6 | 570.5 | 969.1 |
| 3 | 409.3 | 981.4 | 1558.4 | 1580.7 | 590.7 | 990.0 |
| 4 | 412.2 | 994.2 | 1594.8 | 1608.1 | 598.9 | 1009.2 |
| YEAR | 403.9 | 975.4 | 1552.7 | 1557.0 | 580.1 | 976.9 |
| % change from '86 | 4.4 | 4.3 | 7.7 | 7.2 | 6.8 | 7.4 |
| 1988:1 | 414.5 | 1014.2 | 1609.4 | 1647.8 | 614.4 | 1033.4 |
| 2 | 418.1 | 1022.3 | 1633.3 | 1634.5 | 620.5 | 1014.0 |
| 3 | 444.0 | 1040.1 | 1633.7 | 1664.2 | 629.9 | 1034.3 |
| 4 | 460.1 | 1055.4 | 1784.9 | 1691.6 | 636.2 | 1055.4 |
| YEAR | 434.2 | 1033.0 | 1665.3 | 1659.5 | 625.2 | 1034.3 |
| % change from '87 | 7.5 | 5.9 | 7.3 | 6.6 | 7.8 | 5.9 |

## 1.13 REAL GNP

See Table 1.13
Page 9

KEDI forecast calls for 2.5% rise in real GNP in 1987 over 1986 with acceleration to 3.1% in 1988 over 1987. Compared to other forecasters, KEDIs is moderately optimistic:

FORECAST: % GROWTH IN 1987 OVER 1986

| | |
|---|---|
| Administration | 3.2 |
| Wharton Econometrics | 3.3 |
| National Association of Manufacturers | 1.3 |
| Blue Chip Indicators | 2.5 |

PERCENT OF GROWTH AS MEASURED FROM 1986:4 TILL 1987:4 (Data taken from Business Week, Investment Issue, December 1986-January 1987, page 63.

| | |
|---|---|
| UCLA at Los Angeles | 3.9 |
| Fairmodel, Economica | 3.8 |
| RSQE, Univ. of Mich. | 3.8 |
| KEDI | 3.6 |
| Wharton Econometrics | 3.5 |
| Data Resources | 3.0 |
| Evans Economics | 2.5 |
| Chase Econometrics | 2.4 |
| Lawrence H. Meyer and Assoc. | 2.3 |
| Merrill Lynch Economics | 2.3 |
| Georgia State Univ. | 2.1 |
| Average | 3.0 |

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | | |
|---|---|---|
| + | .32& | Net Exports |
| + | .08% | Pers. Cons. Expend. |
| - | .04% | GNP |
| - | .07% | Gross Private Dom. Inv. |
| - | .27% | State Local Purch. |
| - | .46% | Fed. Govt. Purch. |

### TABLE 1.13
### REAL GNP

Quarterly data are seasonally adjusted at annual rates

| | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3575.2 | 2324.5 | 647.7 | -108.2 | 313.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3683.3 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3* | 3686.4 | 2448.0 | 651.3 | -163.3 | 330.9 | 419.5 |
| 4 | 3695.7 | 2450.0 | 657.3 | -165.3 | 332.9 | 420.8 |
| YEAR | 3680.3 | 2419.8 | 664.3 | -152.1 | 328.3 | 414.6 |
| % change from '85 | 2.9 | 4.1 | 2.6 | 40.6 | 4.7 | 4.3 |
| 1987:1 | 3724.2 | 2463.6 | 660.1 | -156.5 | 335.1 | 421.9 |
| 2 | 3756.0 | 2469.9 | 669.0 | -148.9 | 337.6 | 428.4 |
| 3 | 3788.2 | 2486.1 | 672.1 | -143.1 | 339.7 | 433.4 |
| 4 | 3826.0 | 2506.2 | 679.0 | -139.0 | 341.0 | 438.8 |
| YEAR | 3773.6 | 2481.4 | 670.0 | -146.9 | 338.4 | 430.6 |
| % change from '86 | 2.5 | 2.5 | .9 | -3.4 | 3.1 | 3.9 |
| 1988:1 | 3833.1 | 2430.0 | 681.2 | -138.1 | 342.1 | 442.0 |
| 2 | 3857.4 | 2520.9 | 683.8 | -136.8 | 344.2 | 445.3 |
| 3 | 3886.2 | 2535.1 | 691.1 | -133.6 | 345.9 | 447.7 |
| 4 | 4012.4 | 2653.0 | 692.0 | -131.7 | 346.8 | 452.3 |
| YEAR | 3897.3 | 2548.4 | 687.0 | -135.1 | 350.1 | 446.8 |
| % change from '87 | 3.3 | 2.7 | 2.5 | -8.1 | 3.5 | 3.8 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| 00.00% | GNP |
| - .04% | Pers. Cons. Expend. |
| - .06% | Consumer Price Index |
| - .07% | Federal Govt. Purch. |
| - .16% | State Local Purch. |
| - .26% | Producer Price Index |

INFLATION WILL REMAIN UNDER CONTROL

* In 1987 unused capacity of mines, manufacturing and utilities will remain at approximately the same levels as in 1986: 80.1% in 1987:4 compared to the expected 79.4% in 1986.

* Unemployment rate will hover around 6.9-7.0% throughout 1987.

* Supply of commodities will remain plentiful, and prices of energy will go up only moderately.

This means that the labor markets and commodity markets will not be putting pressure on prices to go up.

BUSINESS INFLATION--expect main price increases in raw materials other than food and energy, and prices of imported machinery and equipment.

CONSUMER INFLATION--Main increases are forecast for prices of services, mainly health, transportation, entertainment, repairs and maintenance and insurance. Prices of food, beverages, clothing and apparel will rise only moderately, below the expected 2% average price increase of goods and services recorded by the Consumer Price Index.

### TABLE 1.21
### PRICES

Quarterly data are seasonally adjusted at annual rates unless otherwise stated.

|  | *---Indexes--* |  | *-------Price deflators--------* |  |  |  |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. |  |  |  |  |  |  |
| 1985* | 322.1 | 293.9 | 112.3 | 112.7 | 111.0 | 116.3 |
| 1986:1* | 327.3 | 292.3 | 113.7 | 103.1 | 111.0 | 118.7 |
| 2* | 326.5 | 288.3 | 114.0 | 103.5 | 111.8 | 119.3 |
| 3* | 328.9 | 287.9 | 115.0 | 114.4 | 111.6 | 120.3 |
| 4 | 330.9 | 290.9 | 115.7 | 115.0 | 112.1 | 121.3 |
| YEAR | 328.4 | 289.9 | 114.6 | 114.4 | 111.6 | 119.9 |
| % change from '85 | 2.0 | -1.4 | 2.0 | 1.5 | .6 | 3.1 |
| 1987:1 | 333.0 | 293.9 | 116.7 | 116.4 | 113.1 | 122.1 |
| 2 | 335.6 | 298.8 | 117.8 | 117.8 | 114.4 | 124.1 |
| 3 | 337.6 | 304.5 | 118.7 | 118.6 | 115.8 | 125.6 |
| 4 | 340.2 | 308.0 | 119.6 | 119.8 | 117.2 | 127.4 |
| YEAR | 336.6 | 301.3 | 118.2 | 118.1 | 115.1 | 124.8 |
| % change from '86 | 2.5 | 4.0 | 3.1 | 3.2 | 3.1 | 4.1 |
| 1988:1 | 343.3 | 310.6 | 121.1 | 125.0 | 118.2 | 128.8 |
| 2 | 347.2 | 313.5 | 122.2 | 121.9 | 119.4 | 130.0 |
| 3 | 347.3 | 317.6 | 123.1 | 123.0 | 120.6 | 132.2 |
| 4 | 349.7 | 320.1 | 124.6 | 124.4 | 122.3 | 134.0 |
| YEAR | 346.9 | 315.5 | 122.8 | 123.6 | 120.1 | 131.2 |
| % change from '87 | 3.1 | 4.7 | 3.8 | 4.6 | 4.3 | 5.2 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

**1987
FORECAST
DATA**

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| + .06% | Per. Cons. Expend. |
| - .08% | GNP |
| - .26% | Gross Private Dom. Inv. |
| - .38% | State Local Purch. |
| - .46% | Net Exports |
| - .55% | Federal Govt. Purch. |

EXPORT-IMPORT GAP TO NARROW IN 1987, plus:

- Increase in business capital spending
- Lower share of Federal spending on total GNP

KEDI is LESS optimistic than the Administration and many forecasters who expect a more rapid decline in the export-import gap because it is anticipated that the dollar rate of exchange will not drop much more against other major currencies. KEDI agrees with economists who calculate that since February 1985, the dollar depreciated an average of 4-6%, and not at 20-30% as officially calculated. U.S. exports have not increased and will not increase significantly in 1987 as expected by many.

Do not expect U.S. products to REDOMINATE foreign markets, especially Western Europe because they are producing quality products and are highly selection on imports. Developing countries are restricting their imports.

Business Capital Outlays show a modest growth compared to the depressed level of 1986.
KEDI outlook on FEDERAL SPENDING is optimistic and anticipates a majority of budget cuts will be realized and the proportion of Federal outlays to total GNP will take a slight decline.

## TABLE 1.22
## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3* | 4240.7 | 2799.8 | 675.8 | -108.9 | 369.3 | 504.7 |
| 4 | 4275.9 | 2816.3 | 683.1 | -107.1 | 373.2 | 510.4 |
| YEAR | 4217.7 | 2766.2 | 688.6 | -103.5 | 366.4 | 497.2 |
| % change from '85 | 5.5 | 5.6 | 4.2 | 31.2 | 3.5 | 7.8 |
| 1987:1 | 4346.1 | 2868.6 | 689.1 | -105.7 | 379.0 | 515.1 |
| 2 | 4424.6 | 2909.2 | 702.2 | -104.7 | 386.2 | 531.6 |
| 3 | 4496.6 | 2949.1 | 710.8 | -101.0 | 393.4 | 544.4 |
| 4 | 4575.9 | 3001.2 | 713.1 | -97.1 | 399.7 | 559.0 |
| YEAR | 4460.8 | 2932.0 | 703.8 | -102.1 | 389.6 | 537.5 |
| % change from '86 | 5.8 | 6.0 | 2.2 | -1.4 | 6.3 | 8.1 |
| 1988:1 | 4641.9 | 3038.1 | 720.2 | -90.1 | 404.4 | 569.3 |
| 2 | 4713.7 | 3073.7 | 729.7 | -79.5 | 411.0 | 578.9 |
| 3 | 4783.9 | 3117.8 | 733.1 | -76.0 | 417.2 | 591.9 |
| 4 | 4999.5 | 3300.4 | 736.0 | -67.2 | 424.1 | 606.1 |
| YEAR | 4783.9 | 3149.4 | 729.8 | -78.2 | 414.2 | 586.5 |
| % change from '87 | 7.2 | 7.4 | 3.7 | -23.4 | 6.3 | 9.1 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| + .65% | Unemployment rate |
| + .04% | Civilian Labor Force |
| 00.00% | Agriculture |
| - .01% | Population |
| - .06% | Total Employed |
| - .06% | Non-Agri. |

EMPLOYMENT FORECAST SHOWS STEADY GAINS IN LINE WITH INCREASES IN TOTAL LABOR FORCE.
That translates into a stable unemployment rate, hovering around 7%. Do not look for the unemployment rate to drop before late 1988.

In 1987, approximately 90% of new jobs are expected in service industries, trade, communications, and transportation.

MANUFACTURING will see slight increase of approximately 60,000 newly employed mainly in nondurables industries, mainly food, chemicals, paper and paper products, and plastics.

Look for further declines in fabricated metals and metal working machinery, with mining leveling off. There will be SLIGHT increases in coal mining and stone quarrying, STABLE in oil and gas extraction, with further DECLINES in metallic ores. Construction will show some DECLINES in apartment construction and commercial building, and FLAT in roads construction and repairs, and small increases in public projects.

# TABLE 1.30
## EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *-------Employment-------* Total | Agricult. | Nonagric. | Unemployment rate |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3* | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4 | 249.8 | 118.7 | 110.4 | 3.1 | 107.3 | 7.01 |
| YEAR | 246.9 | 117.9 | 109.7 | 3.2 | 106.5 | 7.03 |
| % change from '85 | 2.1 | 2.2 | 2.0 | -.8 | 2.5 | -2.46 |
| 1987:1 | 250.7 | 119.1 | 110.7 | 3.1 | 107.6 | 7.02 |
| 2 | 252.3 | 120.2 | 111.8 | 3.1 | 108.7 | 6.98 |
| 3 | 254.0 | 121.8 | 113.4 | 3.1 | 110.3 | 6.92 |
| 4 | 256.1 | 122.3 | 113.8 | 3.1 | 110.7 | 6.94 |
| YEAR | 253.3 | 120.8 | 112.4 | 3.1 | 109.3 | 6.96 |
| % change from '86 | 2.6 | 2.5 | 2.5 | -2.4 | 2.7 | -.96 |
| 1988:1 | 257.5 | 123.0 | 114.4 | 3.1 | 111.3 | 6.96 |
| 2 | 259.6 | 123.9 | 115.4 | 3.0 | 112.4 | 6.87 |
| 3 | 261.4 | 125.2 | 116.8 | 3.0 | 113.8 | 6.73 |
| 4 | 263.5 | 126.5 | 118.1 | 3.0 | 115.1 | 6.62 |
| YEAR | 260.5 | 124.7 | 116.2 | 3.1 | 113.1 | 6.79 |
| % change from '87 | 2.9 | 3.1 | 3.2 | 0.0 | 3.4 | -2.44 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| + .53% | Single Family Starts |
| + .08% | Permits Issued |
| - .25% | 1-Family unit price Existing |
| - .33% | 1-Family unit price New |
| - .38% | Mobile Home Shipments |
| - 4.69% | Multiple Family Housing Starts |

NOVEMBER HOUSING STARTS LOWEST SINCE OCTOBER 1984, AND DOWN 3.4% FROM NOVEMBER 1985.

HOUSING STARTS
(in mil. units)

| | Total | 1-Fam. | Multi |
|---|---|---|---|
| Oct ‘86 | 1628 | 1090 | 538 |
| Nov ‘86 | 1598 | 1093 | 505 |

The 1987 forecast shows that single family housing starts will remain at low levels throughout the year and that multi-family housing will continue declining. Overbuilding, high vacancy, and impact of new tax law will hurt the multi-family housing in 1987. Expect MAJOR DECLINES in housing starts in the Southwest, Mideast, and California with MORE NORMAL levels in New England, the Midwest, and Northern states.

Forecast data indicate an UPTURN in housing in 1988 and beyond.

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts<br>mil. | Multi-family housing starts<br>mil. | Mobile home shipments<br>mil. | Permits authorized<br>mil. | 1-Fam. unit price new**<br>tho. $ | 1-Fam. unit price exist**<br>tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .283 | 1.735 | 101.0 | 90.3 |
| 1986:1* | 1.257 | .733 | .274 | 1.839 | 103.4 | 91.8 |
| 2* | 1.242 | .663 | .280 | 1.805 | 104.7 | 94.7 |
| 3* | 1.142 | .602 | .278 | 1.678 | 106.2 | 96.7 |
| 4 | 1.065 | .509 | .264 | 1.567 | 109.9 | 97.5 |
| YEAR | 1.176 | .627 | .274 | 1.722 | 106.1 | 95.2 |
| % change from '85 | 9.7 | -6.3 | -3.2 | -.7 | 5.0 | 5.4 |
| 1987:1 | 1.024 | .521 | .252 | 1.514 | 110.4 | 99.2 |
| 2 | 1.108 | .596 | .280 | 1.667 | 111.2 | 100.1 |
| 3 | 1.165 | .648 | .268 | 1.704 | 112.0 | 100.8 |
| 4 | 1.098 | .614 | .248 | 1.728 | 114.1 | 103.7 |
| YEAR | 1.099 | .595 | .262 | 1.653 | 111.9 | 101.0 |
| % change from '86 | -6.6 | -5.1 | -4.4 | -4.0 | 5.5 | 6.1 |
| 1988:1 | 1.029 | .635 | .259 | 1.619 | 115.4 | 105.1 |
| 2 | 1.124 | .686 | .274 | 1.730 | 117.7 | 106.3 |
| 3 | 1.252 | .672 | .297 | 1.845 | 119.9 | 107.7 |
| 4 | 1.188 | .665 | .292 | 1.817 | 122.2 | 108.9 |
| YEAR | 1.148 | .665 | .280 | 1.753 | 118.8 | 107.0 |
| % change from '87 | 4.5 | 11.7 | 7.1 | 6.0 | 6.1 | 6.0 |

---

*Historical data.

**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| + 1.61% | Imported Car Sales |
| + 1.33% | Shipments |
| + 1.01% | Domestic Car Sales |
| + .74% | Total Light Truck Sales |
| + .24% | Total Car Sales |
| 00.00% | Dealer Inventory |

IMPORT SALES WILL CONTINUE TO GAIN BIGGER SHARE OF MARKET IN 1987.

Total production of U.S. built cars will be lower in 1987 than in 1986 as pent-up demands have been exhausted through the exhaustive low interest incentive campaigns.

* Prices of cars in 1987 will not be attractive despite anticipated rounds of rebates and other incentives.

* Expect significant increases in repair costs.

* Consumer buying mood expected to turn to more foreign cars.

This points to a CONSUMER PAUSE in 1987, with resuscitation in 1988 and 1989.

LIGHT TRUCK sales will remain stable throughout 1987, but not as strong as 1986.

HEAVY TRUCKS are leveling off, but expect stronger sales in second half of the year.

### TABLE 1.42
### AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.1 | 8.4 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.8 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.7 | 7.9 | 3.5 |
| 3* | 13.2 | 9.7 | 3.5 | 1.1 | 9.8 | 3.6 |
| 4 | 10.9 | 7.3 | 3.0 | 1.4 | 7.8 | 3.3 |
| YEAR | 11.4 | 8.2 | 3.1 | 1.4 | 8.3 | 3.5 |
| % change from '85 | 2.5 | -3.0 | 9.8 | 7.7 | -1.2 | -6.8 |
| 1987:1 | 10.3 | 7.4 | 2.9 | 1.8 | 7.5 | 3.3 |
| 2 | 10.7 | 7.6 | 3.1 | 1.8 | 7.4 | 3.5 |
| 3 | 11.0 | 7.7 | 3.3 | 1.7 | 7.8 | 3.5 |
| 4 | 10.5 | 7.2 | 3.3 | 1.8 | 7.7 | 3.4 |
| YEAR | 10.6 | 7.5 | 3.1 | 1.8 | 7.6 | 3.4 |
| % change from '86 | -6.6 | -9.0 | 2.4 | 28.6 | -8.4 | -.7 |
| 1988:1 | 10.3 | 7.0 | 3.3 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.4 | 8.0 | 3.4 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 7.9 | 3.3 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.7 | 3.3 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 2.8 | -1.1 | 4.0 | -5.6 | 3.9 | 4.4 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
December 1986
Forecast

| | |
|---|---|
| +10.66% | State Local Corp. Tax Accrued |
| - .09% | State Income Tax |
| - .22% | Federal Income Tax |
| - .32% | State Surplus/ Deficit |
| - .86% | Corp. Profit Tax Accrued |
| - 4.89% | Federal Surplus/ Deficit |

FORECAST DATA SHOW THAT THE OVERALL IMPACT OF TAX REFORM ON BUSINESSES WILL BE MIXED.

In 1987, lower corporate profits tax rates will be offset by the effects of the loss of investment tax credit, tighter depreciation rules, slower write-offs of certain costs, and stiffer alternative minimum corporate tax. As a result, there will be GOOD and BAD news to different industries:

* GOOD NEWS for most consumer-oriented industries such as food, beverages, retail trade, media, printing and publishing, textile and apparel, household furnishings, plastics, services, and communications.

* BAD NEWS for primary metals, machinery, rubber, automobiles, chemicals, lumber, and oil services.

* NO IMPACT on transportation, wholesale trade, paper and products and construction.

KEDI is less optimistic than the Administration with regard to the current FY 1987 deficit. Compared to the Administration's $143.9 bil. deficit, KEDI expects $165 bil.

KEDI forecast of Federal Budget for FY 1988-1990 anticipates that the Gramm-Rudman deficit targets WILL BE MET.

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | FEDERAL Income taxes | FEDERAL Corp. profits tax accru. | FEDERAL Surplus /deficit | STATE AND LOCAL Income taxes | STATE AND LOCAL Corp. profits tax accru. | STATE AND LOCAL Surplus /deficit |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3* | 365.8 | 84.3 | -197.4 | 153.1 | 20.1 | 64.0 |
| 4 | 380.2 | 86.5 | -190.3 | 155.1 | 21.5 | 65.8 |
| YEAR | 362.4 | 79.3 | -206.8 | 151.8 | 19.3 | 64.7 |
| % change from '85 | 3.3 | 17.1 | 3.4 | 6.9 | 6.6 | 9.3 |
| 1987:1 | 389.1 | 87.1 | -181.2 | 158.0 | 22.4 | 67.8 |
| 2 | 397.4 | 91.2 | -177.9 | 161.8 | 23.1 | 69.1 |
| 3 | 402.9 | 93.8 | -173.2 | 165.8 | 23.8 | 70.2 |
| 4 | 407.4 | 95.1 | -170.0 | 167.4 | 24.1 | 73.6 |
| YEAR | 399.2 | 91.8 | -175.6 | 163.2 | 23.4 | 70.2 |
| % change from '86 | 10.2 | 15.8 | -15.1 | 7.6 | 21.0 | 8.5 |
| 1988:1 | 412.1 | 97.4 | -166.1 | 168.6 | 24.9 | 75.0 |
| 2 | 419.3 | 100.2 | -160.2 | 170.1 | 25.6 | 77.1 |
| 3 | 423.8 | 105.4 | -153.4 | 172.2 | 26.2 | 78.2 |
| 4 | 428.9 | 106.3 | -147.3 | 174.7 | 26.7 | 79.4 |
| YEAR | 421.0 | 102.3 | -156.8 | 171.4 | 25.9 | 77.4 |
| % change from '87 | 5.5 | 11.5 | -10.7 | 5.0 | 10.7 | 10.3 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change from December 1986 Forecast

| | |
|---|---|
| + .02% | Comp. of Employees |
| - .04% | Average Weekly Earnings |
| - .15% | Personal Disp. Income |
| - .16% | Personal Income |
| - 4.40% | Corp. After Tax Profit |
| - .04% | Personal Savings |

PERSONAL INCOME and PERSONAL DISPOSABLE INCOME BOTH SHOW FAIRLY HEALTHY GROWTH IN LINE WITH NOMINAL GNP.

Regular quarterly increments are predicted throughout the year.

| | Personal Income | Personal Disposable Income |
|---|---|---|
| (% growth over the previous year) | | |
| 1986* | 5.0% | 4.9% |
| 1987 | 7.7% | 7.4% |
| 1988 | 6.7% | 6.9% |

*estimate

Corporate after tax profits in 1987 will improve compared to 1986. Expect a slight, temporary decline in the first quarter of 1987, with stable, regular increments afterwards

## TABLE 1.60
## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3* | 3498.8 | 2979.9 | 2507.4 | 135.9 | 84.1 | 393.7 |
| 4 | 3492.9 | 2957.6 | 2521.8 | 139.4 | 139.3 | 397.0 |
| YEAR | 3481.3 | 2967.2 | 2494.4 | 137.1 | 130.5 | 393.9 |
| % change from '85 | 5.0 | 4.9 | 5.3 | 4.4 | -8.9 | 3.1 |
| 1987:1 | 3661.0 | 3113.9 | 2569.8 | 142.7 | 143.7 | 400.2 |
| 2 | 3721.3 | 3162.1 | 2604.6 | 148.6 | 150.6 | 406.3 |
| 3 | 3780.1 | 3211.4 | 2659.9 | 155.9 | 151.2 | 410.5 |
| 4 | 3831.8 | 3257.0 | 2711.1 | 161.2 | 153.0 | 415.9 |
| YEAR | 3748.5 | 3186.1 | 2636.3 | 152.1 | 149.6 | 408.2 |
| % change from '86 | 7.7 | 7.4 | 5.7 | 10.9 | 14.6 | 3.6 |
| 1988:1 | 3896.5 | 3315.8 | 2769.6 | 163.2 | 157.1 | 417.4 |
| 2 | 3934.3 | 3344.9 | 2807.9 | 166.7 | 162.7 | 420.5 |
| 3 | 3982.3 | 3386.3 | 2870.1 | 170.3 | 163.4 | 425.8 |
| 4 | 4184.0 | 3580.4 | 2921.2 | 174.5 | 170.1 | 428.4 |
| YEAR | 3999.3 | 3406.8 | 2842.2 | 168.7 | 163.3 | 423.0 |
| % change from '87 | 6.7 | 6.9 | 7.8 | 10.9 | 9.2 | 3.6 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987 FORECAST DATA

Percent Change from December 1986 Forecast

| | |
|---|---|
| + .25% | Consumer Install. Credit |
| - .16% | Comm. & Indust. Loans at Banks |
| - .75% | Time Deposits |
| - .47% | Large Denom. Time Deposits |
| - .75% | Currency & Demand Deposits |
| - 1.13% | Mortg. at S & L Assns. |

THE EXPERIENCE OF THE PAST TWO YEARS HAS SHOWN THAT INFLATION HAS BEEN REDUCED WHILE THE MONEY SUPPLY HAS GROWN FASTER THAN EVER.

KEDI anticipates that this will also hold for 1987 and the strong growth of monetary aggregates will continue. Rather than rekindling inflation, it will contribute to upward prices for stocks and bonds.

KEDI believes that the FED monetary policy will be NOT RESTRICTIVE so long as inflation behaves. Restrictive measures might result in undesired effects on manufacturing, foreign trade, and international value of the dollar.

Expect some slowing down in the growth of major credit aggregates. Consumer credit will expand less rapidly compared to a torrid pace in 1986--mainly less automobile loans.

Mortgage credit will slow down with less housing activity and commercial loans will increase only marginally.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 535.1 | 493.9 | 436.5 | 585.5 |
| 1986:1* | 629.8 | 2581.3 | 550.9 | 502.1 | 450.4 | 577.1 |
| 2* | 657.8 | 2645.7 | 567.7 | 508.0 | 449.7 | 567.4 |
| 3 | 685.0 | 2714.8 | 588.9 | 511.8 | 447.0 | 578.0 |
| 4 | 706.1 | 2763.3 | 598.4 | 519.0 | 445.1 | 590.6 |
| YEAR | 669.7 | 2676.3 | 598.4 | 519.0 | 445.1 | 590.6 |
| % change from '85 | 12.8 | 7.7 | 11.8 | 5.3 | 2.0 | .9 |
| 1987:1 | 719.4 | 2846.2 | 604.2 | 526.8 | 443.4 | 597.2 |
| 2 | 733.2 | 2902.3 | 611.3 | 534.0 | 444.2 | 603.1 |
| 3 | 742.7 | 2970.1 | 624.7 | 537.2 | 447.8 | 610.7 |
| 4 | 756.5 | 3025.1 | 634.8 | 547.2 | 448.2 | 613.7 |
| YEAR | 738.0 | 2935.9 | 634.8 | 547.2 | 448.2 | 613.7 |
| % change from '86 | 10.2 | 9.7 | 6.1 | 5.4 | .7 | 3.9 |
| 1988:1 | 772.5 | 3094.6 | 641.6 | 550.6 | 451.2 | 628.6 |
| 2 | 789.4 | 3152.4 | 650.4 | 554.9 | 454.0 | 635.7 |
| 3 | 799.6 | 3232.2 | 664.3 | 559.2 | 457.9 | 640.2 |
| 4 | 818.8 | 3297.1 | 678.2 | 565.3 | 461.2 | 650.6 |
| YEAR | 795.1 | 3194.1 | 678.2 | 565.3 | 461.2 | 650.6 |
| % change from '87 | 7.7 | 8.8 | 6.8 | 3.3 | 2.9 | 6.0 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

EXPECT SOME FURTHER DECLINES IN INTEREST RATES IN THE FIRST HALF OF THE YEAR AND STABILIZATION IN THE SECOND HALF.

It is anticipated that the FED will continue its policy of easy credit throughout the year.

* The recovery of manufacturing is still fragile and not strong enough to justify more expensive credit.

* There is still enough room for further declines in interest rates, especially mortgage credit. Housing starts will be weak and present level of mortgage rates (or even higher) would have a negative impact on housing activity. Another candidate for decrease is credit card interest rates. It is expected that declines in this area will continue through this year.

* Expect gradual declines in consumer installment credit, especially auto loans on new and used cars as well as household furnishings.

* Business capital outlays are expected to increase only marginally in 1987 over 1986. Higher interest rates might discourage business even more and depress business capital expenditures.

Look for a BULLISH stock market throughout the year!

1987
FORECAST
DATA

Percent Change from December 1986 Forecast

| | |
|---|---|
| + 3.04% | 20 yr. Govt. Bonds Yield |
| + .53% | Treas. Bills 3 mo. Yield |
| + .50% | S & P's 500 Avg. |
| + .41% | Prime Rate |
| + .36% | Conv. Mortg. Rate |
| + .22% | Aaa Corp. Bond Rate |

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3* | 5.52 | 7.85 | 9.84 | 8.81 | 7.38 | 241.15 |
| 4 | 5.31 | 7.50 | 9.62 | 8.68 | 6.98 | 250.31 |
| YEAR | 5.99 | 8.33 | 9.88 | 9.06 | 7.76 | 238.84 |
| % change from '85 | -19.9 | -11.6 | -11.2 | -20.0 | -28.7 | 27.8 |
| 1987:1 | 5.25 | 7.42 | 9.53 | 8.36 | 6.75 | 252.47 |
| 2 | 5.18 | 7.26 | 9.01 | 8.19 | 6.41 | 252.04 |
| 3 | 5.08 | 7.21 | 8.76 | 8.11 | 6.16 | 254.16 |
| 4 | 5.24 | 7.31 | 8.59 | 7.89 | 6.07 | 256.78 |
| YEAR | 5.19 | 7.30 | 8.97 | 8.14 | 6.35 | 253.86 |
| % change from '86 | -13.5 | -12.4 | -9.1 | -10.2 | -18.2 | 6.3 |
| 1988:1 | 5.27 | 7.36 | 8.67 | 7.81 | 5.97 | 254.91 |
| 2 | 5.39 | 7.45 | 8.72 | 7.96 | 5.78 | 257.14 |
| 3 | 5.43 | 7.58 | 8.81 | 8.12 | 5.96 | 261.52 |
| 4 | 5.61 | 7.72 | 8.89 | 8.26 | 6.04 | 264.38 |
| YEAR | 5.42 | 7.53 | 8.77 | 8.04 | 5.94 | 259.49 |
| % change from '87 | 4.6 | 3.1 | -2.2 | -1.2 | -6.5 | 2.2 |

*Historical data.

## 2.00 U. S. INDUSTRIES IN 1987-1988

**Agriculture:** Corn, wheat, soybeans, and rice crops will maintain their current levels. **Construction:** Expect a temporary decline in single-family housing followed by some improvement in 1988. Apartment housing will decline significantly in both forecast years compared to 1986. Fairly good growth rates in repair and construction of roads, bridges, and airports with moderate growth in public projects and declines in office space and plant construction. **Mining:** Depressed levels in metalic ores mining, and stabilizing of oil and gas extraction at low levels for both forecast years. Compared to 1986, coal production will level off in 1987 and resume the upward trend in 1988. **Durables manufacturing:** Slight improvements will take place in most industries. Expect significant growth in aerospace, electrical machinery and instruments. Primary metals will remain essentially flat with some gains at the end of 1988. The automobile cycle is winding down--look for the next expansion phase in 1988. The market for light-duty trucks will remain strong, with a temporary, slight decline in 1987. The market share for imported cars will increase in 1987. No significant changes in the output of lumber and wood industries are predicted for 1987--expect some improvements in late 1988 with the start of the new housing cycle and with some relief from foreign competition. **Nondurables manufacturing:** Growth in output is expected in the following industries: food and kindred products, paper and products, printing and publishing, plastics, and coal and petroleum products. Production of chemicals and products will go up significantly, mainly in agricultural chemicals, components of plastic materials, and explosives. In the rubber industry, production of tires is expected to remain flat in 1987, with a slight increase in 1988 over the previous year. Strong and continous gains in production of non-tire rubber products are predicted for both forecast years. Textile mill products and apparel growth will remain flat in 1987 and 1988. The leather industry will continue to be weak in performance. **Utilities:** Moderate increase in the production of electricity is expected in both forecast years. No significant increase in natural gas production is predicted. **Trade:** Expect continuous expansion throughout 1987-1988. In 1987 above average increases in sales of nondurables--food and beverages, and durables--home furnishings and fixtures, and other household durables are forecast. Sales of motor vehicles and parts will remain essentially flat. In 1988 significant improvements in sales of textile, apparel, building materials, and motor vehicles and parts will take place. There are no main increments in wholesale trade until 1988. **Transportation:** For railroads, tonnage hauled in 1987 will remain essentially the same as in 1986, with a slight decline in coal, and small increases in grain and intermodal transportation. In 1988, gains in grain and coal tonnage, and further improvements in intermodal transportation are predicted. In 1987, trucking tonnage hauled will increase by 2.3% over 1986, and by 3.4% in 1988 over 1987. No significant gains in passenger-miles in air transportation are predicted for the next two years. **Services:** Main increments are predicted for entertainment, hotels, motels, restaurants, medical, educational, and legal services. Banking, real estate, and insurance are expected to slow down.

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

### TABLE 3.00

### HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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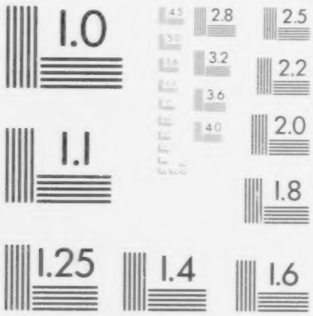
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# KEDI ECONOMIC SURVEY

February 1, 1987

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SOURCES:

U.S.Department of Commerce first estimates of 1986:4 National Income and Product data, January 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, January 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Look for solid continuous growth. Indicators point to development in the economy for approximately the next six months.

### Prices

Inflation will be very low in 1987 while the consumer price index will remain moderate around 2.6% over 1986.

### Employment & Labor

With the better than expected start of the economy in January, the employment outlook for 1987 has been increased.

### Housing

December 1986 single family housing starts spurted to 1.209 million units from 1.087 million in December.

### Automobiles

KEDI expects significant production cuts in car building activity in 1987:2 unless innovative ways of financing are announced.

### Budgets

The budget deficit target for fiscal year 1988, starting October 1, 1987, is a realistic $108 billion.

### Income

No declines or slowdown in personal income, personal disposable income and their components are forecast for 1987 and 1988.

### Money & Credit

Forecast of monetary and credit aggregates for 1987 has been reduced somewhat for mortgages and some long-term credit instruments.

### Interest Rates, Yields & Securities Prices

Forecast data for S & P's 500 average has been increased when compared to the January forecast because of the unprecedented bullish market.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue inot 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the February 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1986 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3585.2 | 3992.5 | 4084.3 | 4182.3 |
| product, p. 5 | % change | 2.5 | 3.1 | 2.3 | 2.4 |
| Index of indust. | 1977=100 | 123.8 | 138.6 | 142.9 | 147.8 |
| prod., p. 5 | % change | 1.1 | 3.4 | 3.1 | 3.4 |
| Capacity | % | 80.4 | 81.0 | 80.1 | 79.4 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.2 | 6.5 | 6.5 | 6.6 |
| rate, p. 5 | % change | -3.1 | -1.3 | 1.0 | .8 |
| Private housing | mil.units | 1.7 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | 4.9 | 4.4 | -2.5 | 3.3 |
| Car sales, | mil.units | 11.0 | 11.2 | 11.1 | 11.6 |
| p. 5 | % change | 3.2 | 2.8 | -.8 | 4.0 |
| Implicit GNP | 1982=100 | 111.5 | 126.7 | 131.3 | 136.6 |
| price def.,p.11 | % change | 2.6 | 3.4 | 3.6 | 4.1 |
| Consumer Price | 1967=100 | 322.2 | 358.7 | 371.3 | 385.0 |
| Index, p. 11 | % change | 1.9 | 3.4 | 3.5 | 3.7 |
| Prod.Price Index | 1967=100 | 293.7 | 328.7 | 343.5 | 354.8 |
| (fin.goods),p.11 | % change | -1.6 | 4.0 | 4.5 | 3.3 |
| Federal Deficit | bil. $ | -200.1 | -133.1 | -106.6 | -70.2 |
| p. 21 | % change | 15.1 | -14.5 | -19.9 | -34.2 |
| Personal Income | bil. $ | 3314.5 | 4227.1 | 4523.0 | 4853.1 |
| p. 23 | % change | 5.1 | 6.9 | 7.0 | 7.3 |
| Prime Rate | % | 9.4 | 8.0 | 8.7 | 9.5 |
| p. 27 | % change | -11.6 | 6.2 | 9.0 | 8.4 |
| Mortgage Rate | % | 11.1 | 9.1 | 8.8 | 9.0 |
| p. 27 | % change | -11.2 | 3.4 | -2.7 | 2.0 |
| Currency+demand | bil. $ | 593.6 | 858.6 | 917.8 | 974.7 |
| deposits , p. 25 | % change | 13.2 | 7.2 | 6.9 | 6.2 |
| Commercial+ind. | bil. $ | 493.9 | 582.5 | 599.4 | 612.0 |
| loans, p. 25 | % change | 5.3 | 3.1 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.3 | 90.0 | 90.2 |
| production | % change | -4.8 | .3 | .8 | .2 |
| Electric power | mil.kw-hr | 2576 | 3210 | 3328.8 | 3481.9 |
| production | % change | 6.5 | 3.9 | 3.7 | 4.6 |
| Bituminous coal | mil.sh.tons | 873 | 930 | 973.1 | 984.0 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2325 | 2371.5 | 2421.3 |
| output | % change | .9 | 1.9 | 2.0 | 2.1 |
| Retail sales | bil. $ | 1377.7 | 1762.4 | 1871.7 | 1991.5 |
| p. 7 | % change | 6.2 | 6.1 | 6.2 | 6.4 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

### LOOK FOR SOLID CONTINUOUS GROWTH

* Regular Survey of the National Association of Purchasing Managers, an important barometer of the economy. Their index advanced to 55.8% for January '87 compared to 50.4% in December '86--highest since July '84. Percent of respondents reporting:

| | Jan 1987 | Dec 1986 |
|---|---|---|
| New orders up | 40% | 22% |
| Production up | 37% | 19% |
| Employment up | 13% | 9% |

* Leading indicators jumped 2.1% in December, the biggest gain in nearly 4 years.

* Factory orders rose a brisk 1.2%.

* Conference Board's monthly Index of Consumer Confidence advanced to 94.0 in December, almost 4 points up from the November level.

* Index of Industrial Production in December gained .5%--encouraging in that manufacturing advanced by .6%, mostly in export sensitive segments.

* Unemployment rate was 6.7% in December with indications that January '87 will again be around 6.7%.

THESE INDICATORS POINT TO DEVELOPMENT IN THE ECONOMY FOR APPROXIMATELY THE NEXT SIX MONTHS.

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + .12% | Index Indus. Prod. |
| + .06% | Capacity Util. |
| + .01% | GNP |
| - .22% | Private Housing Starts |
| - .94% | Autos |
| - 1.64% | Unemployment |

### TABLE 1.11
### SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR<br>Unit | GNP<br>$82 bil. | Index of ind. prod**<br>1977=100 | Unemployment<br>% | Capacity util'n rate**<br>% | Private housing starts<br>mil. | Auto sales<br>mil. |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.0 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3661.4 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3* | 3686.4 | 125.1 | 6.90 | 79.7 | 1.744 | 13.2 |
| 4 | 3702.4 | 125.9 | 6.83 | 79.4 | 1.672 | 10.8 |
| YEAR | 3676.5 | 125.1 | 6.99 | 79.6 | 1.828 | 11.3 |
| % change from '85 | 2.5 | 1.1 | -3.1 | -1.0 | 4.9 | 3.2 |
| 1987:1 | 3724.3 | 126.5 | 6.78 | 79.8 | 1.556 | 10.1 |
| 2 | 3756.2 | 127.6 | 6.84 | 79.8 | 1.706 | 10.4 |
| 3 | 3788.5 | 128.9 | 6.75 | 79.7 | 1.808 | 11.0 |
| 4 | 3826.8 | 131.6 | 6.70 | 80.1 | 1.715 | 10.5 |
| YEAR | 3773.9 | 128.7 | 6.77 | 79.8 | 1.696 | 10.5 |
| % change from '86 | 2.6 | 2.8 | -3.1 | .3 | -7.2 | -7.5 |
| 1988:1 | 3733.4 | 132.2 | 6.73 | 80.2 | 1.659 | 10.3 |
| 2 | 3857.7 | 133.4 | 6.67 | 80.4 | 1.800 | 10.8 |
| 3 | 3886.2 | 134.3 | 6.63 | 81.2 | 1.902 | 11.4 |
| 4 | 4012.5 | 136.4 | 6.51 | 81.7 | 1.810 | 11.2 |
| YEAR | 3872.4 | 134.1 | 6.63 | 80.9 | 1.793 | 10.9 |
| % change from '87 | 2.6 | 4.2 | -2.0 | 1.3 | 5.7 | 4.0 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| +19.01% | Pers. Con. Exp. Durable |
| + 3.03% | Retail Sales Durable |
| - .09% | Pers. Con. Exp. Nondurable |
| - 1.49% | Retail Sales Total |
| - 4.18% | Retail Sales Nondurable |
| - 5.09% | Pers. Con. Exp. Services |

FORECAST DATA POINT TO SIGNIFICANT GAIN IN CONSUMER SPENDING ON SERVICES.

% Change in constant 1982$ over 1986:
Volume of:

| | |
|---|---|
| health & medical services | +7 |
| hotels, motels, and restaurants | +6-7 |
| maintenance and repairs of consumer durables | +6 |
| transportation and entertainment | +6 |

Strong increases are predicted for educational, legal, advertisement and management consulting services.

In the nondurables segment, main gains are expected in food and beverages, and chemicals service the consumer sector: cleaning, cosmetics, drugs and toilet preparations, consumer plastics, adhesives, and biotechnology products.

Prediction for other nondurables is mixed:

- Weak in textile, apparel, shoes and other leather products.
- Moderate in paper and paper products, and a bit of growth in rubber non-tire products.

Consumer demand for durables will remain strong in appliances and fixtures, home building materials, lumber and wood products, motor vehicles parts and recreational vehicles. Expect a decline in car sales, mainly domestically produced. This year will be a flat market for light-duty trucks and vans.

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-* | | | *------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1985* | 359.3 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3* | 414.5 | 932.8 | 1452.4 | 1470.2 | 559.4 | 910.8 |
| 4 | 404.2 | 840.0 | 1575.7 | 1491.3 | 555.1 | 936.2 |
| YEAR | 388.4 | 907.7 | 1467.9 | 1454.5 | 543.2 | 911.2 |
| % change from '85 | 8.1 | .3 | 9.9 | 5.6 | 6.2 | 5.2 |
| 1987:1 | 492.4 | 958.0 | 1522.3 | 1502.4 | 560.1 | 942.3 |
| 2 | 404.5 | 966.7 | 1532.6 | 1450.8 | 557.3 | 893.5 |
| 3 | 411.7 | 980.2 | 1553.9 | 1577.3 | 581.7 | 995.6 |
| 4 | 414.2 | 993.1 | 1585.8 | 1604.5 | 591.6 | 1012.9 |
| YEAR | 430.7 | 974.5 | 1548.7 | 1533.8 | 572.7 | 961.1 |
| % change from '86 | 10.9 | 7.4 | 5.5 | 5.5 | 5.4 | 5.5 |
| 1988:1 | 416.5 | 1011.2 | 1484.2 | 1649.5 | 611.2 | 1038.3 |
| 2 | 421.0 | 1020.3 | 1630.8 | 1632.2 | 617.4 | 1014.8 |
| 3 | 444.2 | 1037.4 | 1631.9 | 1665.3 | 626.5 | 1038.8 |
| 4 | 460.5 | 1051.5 | 1774.0 | 1697.4 | 633.7 | 1063.7 |
| YEAR | 435.6 | 1030.1 | 1630.3 | 1661.1 | 622.2 | 1038.9 |
| % change from '87 | 1.1 | 5.7 | 5.3 | 8.3 | 8.6 | 8.1 |

## 1.13 REAL GNP

See Table 1.13
Page 9

GNP FOR 1987 IN CONSTANT 1982$ SHOWS BETTER BALANCE COMPARED TO THE 1986 GNP.

The main improvement is in the foreign sector. Look for a decline in the trade gap:

| | Export-Import Gap (in bil. 1982$) |
|---|---|
| 1986 | -149.7 |
| 1987 | -144.6 |

An imbalance in business capital outlays will persist. Expenditures on new factory plants and other commercial buildings will be flat and increments in new machinery and equipment will be less than moderate. More normal rates of growth of business capital outlays are expected no earlier than in 1988.

Housing will be weaker in 1987 compared to 1986. Expect declines in spending on new private housing.

Continuous growth in personal consumption, regular increments in government spending, improved foreign trade segment, and weakness in personal and business capital formation.

Look for a better balanced GNP in 1988.

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + 1.77% | Fed. Govt. Purch. |
| + .38% | Pers. Cons. Expend. |
| + .01% | GNP |
| + .01% | State Local Purch. |
| - 1.60% | Net Exports |
| - 2.60% | Gross Private Dom. Inv. |

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

|  | *-----------Gross National Product--------------* |  |  |  |  |  |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. |  |  |  |  |  |  |
| 1985* | 3585.2 | 2324.5 | 647.7 | -108.2 | 323.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3661.4 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3* | 3686.4 | 2448.0 | 651.3 | -163.3 | 330.9 | 419.5 |
| 4 | 3702.4 | 2445.1 | 638.8 | -155.6 | 353.5 | 420.6 |
| YEAR | 3676.5 | 2418.5 | 659.7 | -149.7 | 333.4 | 414.6 |
| % change from '85 | 2.5 | 4.0 | 1.9 | 38.3 | 3.0 | 4.3 |
| 1987:1 | 3742.3 | 2492.6 | 640.1 | -151.4 | 339.2 | 421.8 |
| 2 | 3756.2 | 2486.3 | 646.0 | -148.1 | 343.6 | 428.4 |
| 3 | 3788.5 | 2493.1 | 657.1 | -140.5 | 345.3 | 433.5 |
| 4 | 3826.8 | 2509.6 | 667.2 | -138.2 | 349.4 | 438.8 |
| YEAR | 3773.9 | 2490.9 | 652.6 | -144.6 | 344.4 | 430.6 |
| % change from '86 | 2.6 | 3.0 | -1.1 | -3.4 | 3.3 | 3.9 |
| 1988:1 | 3833.4 | 2430.0 | 671.4 | -135.4 | 351.2 | 442.1 |
| 2 | 3857.7 | 2516.1 | 673.9 | -131.3 | 353.4 | 445.6 |
| 3 | 3886.2 | 2538.4 | 675.6 | -129.9 | 354.2 | 447.9 |
| 4 | 4012.5 | 2651.4 | 678.4 | -127.4 | 357.4 | 452.7 |
| YEAR | 3872.4 | 2531.4 | 674.8 | -131.0 | 350.1 | 447.1 |
| % change from '87 | 2.6 | 1.6 | 3.4 | -9.4 | 1.7 | 3.8 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + .12% | State Local Purch. |
| + .01% | Consumer Price Index |
| - .25% | GNP |
| - .26% | Federal Govt. Purch. |
| - .52% | Producer Price Index |
| - .62% | Pers. Cons. Expend. |

INFLATION WILL BE VERY LOW IN 1987 WHILE THE CONSUMER PRICE INDEX WILL REMAIN MODERATE AROUND 2.6% OVER 1986.

Some forecasters are less optimistic:

| | |
|---|---|
| Blue Chip Indicators | +4.0% |
| Beryl Sprinkle (Chairman of the Board of Economic Advisors to the President) | +3.8% |

There will be nothing strong enough to push prices up significantly because:

* Wage and salary increments of new contracts this year are expected to be 1-2 percent only.
* Unemployment rate will still remain relatively high at 6.7-6.8% through the most of the year.
* Capacity utilization will remain at low levels, around 80% for mines, manufacturing and utilities.
* Good harvest for this year, about the same as 1986.
* Large supplies of raw materials, semifinished, and finished products are expected to prevail.
* Increases in prices of energy will be moderate.

### TABLE 1.21
### PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.2 | 293.7 | 111.5 | 111.5 | 109.4 | 116.0 |
| 1986:1* | 327.3 | 290.8 | 113.5 | 113.5 | 111.0 | 118.8 |
| 2* | 326.5 | 288.5 | 114.0 | 114.1 | 111.8 | 119.4 |
| 3* | 328.9 | 287.9 | 115.0 | 115.1 | 111.6 | 120.3 |
| 4 | 330.9 | 288.4 | 115.3 | 115.3 | 106.5 | 122.0 |
| YEAR | 328.4 | 288.9 | 114.5 | 114.2 | 110.2 | 120.1 |
| % change from '85 | 1.9 | -1.6 | 2.6 | 2.4 | .8 | 3.6 |
| 1987:1 | 333.0 | 292.9 | 116.5 | 115.2 | 112.9 | 122.3 |
| 2 | 335.6 | 297.5 | 117.4 | 116.8 | 114.1 | 124.4 |
| 3 | 337.7 | 302.3 | 118.3 | 118.2 | 115.2 | 125.6 |
| 4 | 340.2 | 306.2 | 119.4 | 119.3 | 117.0 | 127.5 |
| YEAR | 336.6 | 299.7 | 117.9 | 117.4 | 114.8 | 125.0 |
| % change from '86 | 2.5 | 3.7 | 3.0 | 2.8 | 4.2 | 4.0 |
| 1988:1 | 343.4 | 317.9 | 120.9 | 119.8 | 118.2 | 128.6 |
| 2 | 347.2 | 311.8 | 122.0 | 122.1 | 119.5 | 129.9 |
| 3 | 347.3 | 316.0 | 122.9 | 122.7 | 120.6 | 132.0 |
| 4 | 349.8 | 318.4 | 124.3 | 123.9 | 122.4 | 133.7 |
| YEAR | 346.9 | 316.0 | 122.5 | 122.1 | 120.2 | 131.1 |
| % change from '87 | 3.1 | 5.4 | 3.9 | 4.1 | 4.7 | 4.9 |

---

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + 1.49% | Fed Govt. Purch. |
| + 1.47% | Net Exports |
| + .13% | State Local Purch. |
| - .11% | Pers. Cons. Expend. |
| - .24% | GNP |
| - 1.18% | Gross Private Dom. Inv. |

THE 1987 NOMINAL GNP MIRRORS 1986 WITH INHERITED IMBALANCES THAT WILL PERSIST:

* Negative trade gap, though smaller
* Low level of business capital formation, in both areas: flat in new plants, and very modest increases in new machinery and equipment.
* Some declines in spending on residential construction.

The outlook for 1988 calls for a more balanced growth with further declines in the negative trade balance, and resumption of growth in the business and consumer fixed capital formation.

KEDI assumes that the decline of the international value of the dollar against major currencies will bottom out at the present level--specifically the Japanese Yen and German Mark. Calculations reveal that further declines will necessarily affect domestic price levels, rekindle inflation, and not be effective in speeding up the closing of the trade gap.

## TABLE 1.22
## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3* | 4240.7 | 2799.8 | 675.8 | -108.9 | 369.3 | 504.7 |
| 4 | 4268.4 | 2819.9 | 674.5 | -115.6 | 376.3 | 513.3 |
| YEAR | 4207.8 | 2761.5 | 686.5 | -105.7 | 367.2 | 497.9 |
| % change from '85 | 5.2 | 5.4 | 3.8 | 33.9 | 3.7 | 7.9 |
| 1987:1 | 4338.8 | 2872.6 | 678.1 | -110.7 | 383.0 | 515.9 |
| 2 | 4409.8 | 2903.8 | 687.3 | -106.3 | 392.0 | 532.9 |
| 3 | 4481.8 | 2945.8 | 695.8 | -102.1 | 397.8 | 544.5 |
| 4 | 4569.2 | 2993.1 | 703.1 | -95.3 | 408.8 | 559.5 |
| YEAR | 4449.9 | 2928.8 | 691.1 | -103.6 | 395.4 | 538.2 |
| % change from '86 | 5.8 | 6.1 | .7 | -2.0 | 7.7 | 8.1 |
| 1988:1 | 4513.7 | 2911.9 | 708.2 | -90.1 | 415.1 | 568.5 |
| 2 | 4706.4 | 3072.1 | 712.6 | -79.5 | 422.3 | 578.8 |
| 3 | 4776.1 | 3113.5 | 720.2 | -76.0 | 427.2 | 591.2 |
| 4 | 4987.5 | 3286.0 | 726.0 | -67.2 | 437.5 | 605.3 |
| YEAR | 4744.7 | 3091.7 | 716.8 | -78.2 | 425.5 | 586.0 |
| % change from '87 | 6.6 | 5.6 | 3.7 | -24.5 | 7.6 | 8.9 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + .14% | Total Employed |
| + .14% | Non-Agri. |
| 0.00% | Agriculture |
| - .01% | Population |
| - .06% | Civilian Labor Force |
| - 2.77% | Unemployment rate |

WITH THE BETTER THAN EXPECTED START OF THE ECONOMY IN JANUARY, THE EMPLOYMENT OUTLOOK FOR 1987 HAS BEEN INCREASED.

* Preliminary data for January point to the 6.7% unemployment rate--the same as December 1986. KEDI and most other forecasters expected a January rate of 6.9-7.0%. However, preliminary January data indicate increases in employment in many segments of manufacturing, especially the export-sensitive industries. KEDI has revised upward the prediction of new jobs in manufacturing from 50,000 to 90,000 new jobs this year.

* New jobs in the service sector has been revised upwards with more new openings forecast for health, medical, transportation, and entertainment segments.

Though the new forecast calls for a better employment situation in general, it does not mean that it will improve in all segments of the economy. Forecast data still show declines in employment, mainly in primary metals, metallic ore mining, commercial, manufacturing, and office buildings and apartments.

### TABLE 1.30
### EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *-------Employment-------* | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agricult. | Non-agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3* | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4 | 249.8 | 118.7 | 110.6 | 3.1 | 107.5 | 6.83 |
| YEAR | 246.9 | 117.9 | 109.8 | 3.2 | 106.7 | 6.99 |
| % change from '85 | 2.1 | 2.2 | 2.0 | -.8 | 2.7 | -3.09 |
| 1987:1 | 250.7 | 119.1 | 111.0 | 3.1 | 107.9 | 6.78 |
| 2 | 252.3 | 120.2 | 112.0 | 3.1 | 108.9 | 6.84 |
| 3 | 254.0 | 121.6 | 113.4 | 3.1 | 110.3 | 6.75 |
| 4 | 256.1 | 122.0 | 113.8 | 3.1 | 110.7 | 6.70 |
| YEAR | 253.3 | 120.7 | 112.6 | 3.1 | 109.5 | 6.77 |
| % change from '86 | 2.6 | 2.4 | 2.5 | -2.4 | 2.6 | -3.15 |
| 1988:1 | 257.5 | 122.7 | 114.4 | 3.1 | 111.3 | 6.73 |
| 2 | 259.6 | 123.8 | 115.5 | 3.0 | 112.5 | 6.67 |
| 3 | 261.4 | 125.0 | 116.7 | 3.0 | 113.7 | 6.63 |
| 4 | 263.5 | 126.4 | 118.2 | 3.0 | 115.2 | 6.51 |
| YEAR | 260.5 | 124.5 | 116.2 | 3.1 | 113.1 | 6.63 |
| % change from '87 | 2.9 | 3.1 | 3.2 | 0.0 | 3.3 | -1.96 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + 2.00% | Mobile Home Shipments |
| + .73% | Single Family Starts |
| + .42% | Permits Issued |
| + .38% | 1-Family unit price New |
| - .32% | 1-Family unit price Existing |
| - .97% | Multiple Family Housing Starts |

DECEMBER 1986 SINGLE FAMILY HOUSING STARTS SPURTED TO 1.209 MILLION UNITS FROM NOVEMBER'S 1.087 MILLION UNITS WHILE MULTI-FAMILY STARTS GAINED SIGNIFICANTLY.

KEDI looks at this as a temporary deviation rather than an indication of strong performance for 1987, and maintains the forecast of a weaker housing market this year when compared to 1986, especially in the apartment segment. Present vacancy rate of apartments is the highest since 1982. It is generally understood that apartments are overbuilt. Add to that the negative impact of new tax legislation which MUST result in declining activity for apartment construction.

Forecast of more significant gains in private housing starts, both single-family and apartments in 1988 over 1987 is maintained here.

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts<br>mil. | Multi-family housing starts<br>mil. | Mobile home shipments<br>mil. | Permits authorized<br>mil. | 1-Fam. unit price new**<br>tho. $ | 1-Fam. unit price exist**<br>tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .283 | 1.735 | 101.0 | 90.3 |
| 1986:1* | 1.257 | .733 | .274 | 1.839 | 103.4 | 91.8 |
| 2* | 1.242 | .663 | .280 | 1.805 | 104.7 | 94.7 |
| 3* | 1.142 | .602 | .278 | 1.678 | 106.2 | 96.7 |
| 4 | 1.131 | .541 | .269 | 1.589 | 110.2 | 97.8 |
| YEAR | 1.193 | .635 | .275 | 1.728 | 106.1 | 95.2 |
| % change from '85 | 11.3 | -5.1 | -2.7 | -.4 | 5.1 | 5.5 |
| 1987:1 | 1.039 | .517 | .253 | 1.523 | 110.6 | 99.3 |
| 2 | 1.116 | .590 | .284 | 1.672 | 111.8 | 100.1 |
| 3 | 1.174 | .634 | .273 | 1.714 | 112.5 | 100.2 |
| 4 | 1.099 | .616 | .259 | 1.731 | 114.4 | 103.1 |
| YEAR | 1.107 | .589 | .267 | 1.660 | 112.3 | 100.7 |
| % change from '86 | -7.2 | -7.2 | -2.9 | -3.9 | 5.8 | 5.7 |
| 1988:1 | 1.032 | .627 | .261 | 1.628 | 115.3 | 105.3 |
| 2 | 1.120 | .680 | .275 | 1.738 | 117.9 | 106.7 |
| 3 | 1.241 | .661 | .298 | 1.851 | 119.9 | 107.9 |
| 4 | 1.168 | .642 | .294 | 1.826 | 122.4 | 109.2 |
| YEAR | 1.140 | .653 | .282 | 1.761 | 118.9 | 107.3 |
| % change from '87 | 3.0 | 10.7 | 5.5 | 6.1 | 5.8 | 6.6 |

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*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + 1.61% | Imported Car Sales |
| + .74% | Total Light Truck Sales |
| 0.00% | Shipments |
| 0.00% | Dealer Inventory |
| - .94% | Total Car Sales |
| - 2.00% | Domestic Car Sales |

KEDI EXPECTS SIGNIFICANT PRODUCTION CUTS IN CAR BUILDING ACTIVITY IN 1987:2 UNLESS INNOVATIVE WAYS OF FINANCING ARE ANNOUNCED.

Passenger car sales dropped in mid-January by 36.9% compared to mid-January 1986. KEDI shares the opinion that this reflects the payback for the December 1986 incentives.

Ambitious plans remain for 1987:1 for many car builders as they plan to produce at about the same level as 1986:1--2.1 million cars.

PRODUCTION OF CARS IN 1987:1
(in thousand units)

| | 1987:1 (Planned) | 1986:1 (Actual) | Percent Change |
|---|---|---|---|
| GM | 1100 | 1200 | - 8.8 |
| Ford | 543 | 447 | +22.0 |
| Chrysler | 306 | 373 | -18.0 |
| Honda | 88 | 45 | +93.0 |
| AMC | 11 | 13 | -16.0 |
| VW | 27 | 22 | +24.0 |
| Toyota | 9 | 0 | 0 |
| Nissan | 38 | 22 | +75.0 |

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.0 | 8.2 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.9 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.8 | 8.3 | 3.5 |
| 3* | 13.2 | 9.7 | 3.5 | 1.3 | 11.0 | 3.6 |
| 4 | 10.8 | 7.1 | 3.0 | 1.4 | 8.9 | 3.3 |
| YEAR | 11.3 | 8.1 | 3.1 | 1.4 | 9.0 | 3.5 |
| % change from '85 | 3.2 | -1.2 | 9.8 | 7.7 | 6.8 | -6.8 |
| 1987:1 | 10.1 | 7.2 | 2.9 | 1.7 | 7.5 | 3.3 |
| 2 | 10.4 | 7.3 | 3.1 | 1.8 | 7.4 | 3.5 |
| 3 | 11.0 | 7.7 | 3.3 | 1.7 | 7.8 | 3.5 |
| 4 | 10.5 | 7.2 | 3.3 | 1.8 | 7.7 | 3.4 |
| YEAR | 10.5 | 7.3 | 3.1 | 1.8 | 7.6 | 3.4 |
| % change from '86 | -7.5 | -9.9 | 2.4 | 28.6 | -15.3 | -.7 |
| 1988:1 | 10.3 | 7.0 | 3.3 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.4 | 8.0 | 3.4 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 7.9 | 3.3 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.7 | 3.3 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 4.0 | .1 | 4.0 | -5.6 | 3.9 | 4.4 |

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*Historical data.

**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

THE BUDGET DEFICIT TARGET FOR FISCAL YEAR 1988, STARTING OCTOBER 1, 1987, IS A REALISTIC $108 BILLION.

The assumption that targets of the Gramm-Rudman Deficit Reduction Act will be met in fiscal year 1988 and following years is maintained here.

Fiscal year 1986 ended on October 31, 1986 with the federal deficit at $202.7 bil.

The current fiscal year 1987, ending October 31, 1987 is expected to produce a deficit of $173.2 bil.

The Congressional Budget Office, traditionally wrong in it's forecasts, predicts the 1988 fiscal year to end with a budget deficit in the range of $135-145 bil. KEDI believes this is too pessimistic.

The plan for a balanced federal budget in FY 1991 stimulates considerations:

Surpluses of state and local budgets are growing constantly, and will continue to grow. In 1991, a conservative prediction calls for approximately $85 bil. surplus. If, at that time, the federal budget is balanced, the government sector, as a whole, will show a significant surplus of about $90 bil. The public sphere will absorb more funds than it releases which could result in negative effects on employment, production and overall growth of the economy.

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + .21% | State Income Tax |
| + .18% | State Surplus/ Deficit |
| - .24% | Federal Surplus/ Deficit |
| - .25% | Corp. Profit Tax Accrued |
| - .53% | Federal Income Tax |
| - 1.71% | State Local Corp. Tax Accrued |

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### TABLE 1.50
### FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----FEDERAL | ----------* | | *---STATE AND LOCAL | ----* | |
|---|---|---|---|---|---|---|
| | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3* | 365.8 | 84.3 | -197.4 | 153.1 | 20.1 | 64.0 |
| 4 | 377.4 | 86.2 | -190.1 | 155.0 | 21.6 | 65.9 |
| YEAR | 361.6 | 79.2 | -206.8 | 151.8 | 19.3 | 64.7 |
| % change from '85 | 3.1 | 17.0 | 3.3 | 6.9 | 6.8 | 9.3 |
| 1987:1 | 389.1 | 87.1 | -180.4 | 158.1 | 22.0 | 67.9 |
| 2 | 396.5 | 91.0 | -177.1 | 162.2 | 22.8 | 69.3 |
| 3 | 400.3 | 93.1 | -173.2 | 166.1 | 23.2 | 70.4 |
| 4 | 402.4 | 95.1 | -170.0 | 167.8 | 24.0 | 73.7 |
| YEAR | 397.1 | 91.6 | -175.2 | 163.6 | 23.0 | 70.3 |
| % change from '86 | 9.8 | 15.6 | -15.3 | 7.8 | 19.0 | 8.7 |
| 1988:1 | 409.1 | 97.4 | -165.9 | 169.2 | 24.6 | 75.2 |
| 2 | 415.8 | 99.5 | -161.0 | 171.4 | 25.5 | 77.4 |
| 3 | 420.2 | 103.0 | -152.8 | 173.5 | 26.0 | 78.5 |
| 4 | 425.6 | 106.0 | -143.1 | 176.2 | 26.1 | 79.6 |
| YEAR | 417.7 | 101.5 | -155.7 | 172.6 | 25.6 | 77.7 |
| % change from '87 | 5.2 | 10.8 | -11.1 | 5.5 | 11.1 | 10.5 |

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*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + .35% | Comp. of Employees |
| + .16% | Corp. After Tax Profit |
| + .12% | Personal Disp. Income |
| + .05% | Personal Income |
| + .01% | Average Weekly Earnings |
| - 6.85% | Personal Savings |

NO DECLINES OR SLOWDOWN IN PERSONAL INCOME, PERSONAL DISPOSABLE INCOME AND THEIR COMPONENTS ARE FORECAST FOR 1987 AND 1988.

Forecast of corporate profits in 1987 is optimistic despite the impact of the new tax law. Majority of industries will end this year with gains or smaller losses than in 1986.

CORPORATE PROFITS WITH INVENTORY VALUATION ADJUSTMENTS (in bil.$)

| | 1985 | 1986 | 1987 |
|---|---|---|---|
| Manufacturing | | | |
| Durables | | | |
| Prim. metals | -2.6 | -2.1 | -1.8 |
| Fab. metal prod. | 4.1 | 5.0 | 5.2 |
| Nonelect. mach. | 3.6 | 3.3 | 3.4 |
| Elect/electronic machinery | 4.9 | 5.1 | 5.2 |
| Motor vehicles and equipment | 6.8 | 15.2 | 15.7 |
| Other | 12.1 | 15.2 | 15.7 |
| Nondurables | | | |
| Food/kindred prod. | 7.8 | 10.3 | 12.1 |
| Chem/allied prod. | 4.7 | 6.9 | 7.3 |
| Petro/coal prod. | 13.4 | 7.5 | 7.9 |
| Other | 19.1 | 17.1 | 17.3 |
| Trans/Public Util. | 33.0 | 38.7 | 41.2 |
| Wholesale/retail | 49.7 | 51.0 | 52.9 |
| Other nonfinancial | 14.9 | 14.8 | 15.0 |
| Fed Reserve Banks | 16.8 | 15.6 | 16.4 |
| Rest of the world | 31.8 | 34.3 | 35.7 |

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3* | 3498.8 | 2979.9 | 2507.4 | 135.9 | 84.1 | 393.7 |
| 4 | 3533.4 | 3001.0 | 2544.2 | 138.2 | 182.3 | 397.8 |
| YEAR | 3491.5 | 2978.1 | 2500.0 | 136.8 | 141.3 | 394.1 |
| % change from '85 | 5.3 | 5.3 | 5.6 | 4.1 | -1.4 | 3.2 |
| 1987:1 | 3646.2 | 3099.0 | 2570.4 | 142.6 | 126.2 | 400.2 |
| 2 | 3701.4 | 3142.7 | 2614.9 | 148.9 | 137.5 | 406.3 |
| 3 | 3760.4 | 3194.0 | 2669.7 | 156.3 | 145.6 | 410.5 |
| 4 | 3815.7 | 3245.5 | 2727.5 | 161.6 | 148.1 | 415.9 |
| YEAR | 3730.9 | 3170.3 | 2645.6 | 152.3 | 139.3 | 408.2 |
| % change from '86 | 6.9 | 6.5 | 5.8 | 11.3 | -1.4 | 3.6 |
| 1988:1 | 3747.3 | 3169.0 | 2770.2 | 163.8 | 152.0 | 417.4 |
| 2 | 3927.2 | 3340.0 | 2805.6 | 167.2 | 161.2 | 420.5 |
| 3 | 3977.4 | 3383.7 | 2876.8 | 172.4 | 163.0 | 425.8 |
| 4 | 4164.9 | 3563.1 | 2914.3 | 175.9 | 168.7 | 428.4 |
| YEAR | 3954.2 | 3364.0 | 2841.7 | 169.8 | 161.2 | 423.0 |
| % change from '87 | 6.0 | 6.1 | 7.4 | 11.5 | 15.7 | 3.6 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| + .32% | Currency & Demand Deposits |
| + .31% | Time Deposits |
| - .04% | Comm. & Indust. Loans at Banks |
| - .22% | Consumer Install. Credit |
| - 2.90% | Large Denom. Time Deposits |
| - 5.26% | Mortg. at S & L Assns. |

THE FORECAST OF MONETARY AND CREDIT AGGREGATES FOR 1987 HAS BEEN REDUCED SOMEWHAT FOR MORTGAGES AND SOME LONG-TERM CREDIT INSTRUMENTS WHEN COMPARED TO LAST MONTH'S ISSUE.

There are no signs that the Federal Reserve will take restrictive measures to curb the money growth. So far the torrid growth of money supply has not produced any inflationary pressures. All indications are that it will not in the current phase of the cycle. As a matter of fact, in the last two years the increased money supply contributed to pushing prices upward at stock and bond markets and to handle the deficit in foreign trade. The impact of increased money supply on domestic price levels has been minimal and there are virtually no reasons to believe that it will change in the foreseeable future. Money is not related with price levels in the way that a rise in money supply necessitates price increases in the current phase of the cycle.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 535.1 | 493.9 | 436.5 | 583.2 |
| 1986:1* | 629.8 | 2581.3 | 550.9 | 502.1 | 450.4 | 574.7 |
| 2* | 657.8 | 2645.7 | 567.7 | 508.0 | 448.5 | 565.2 |
| 3* | 685.0 | 2719.6 | 584.3 | 511.4 | 443.4 | 558.4 |
| 4 | 715.2 | 2771.9 | 597.5 | 517.2 | 440.2 | 569.5 |
| YEAR | 672.0 | 2679.6 | 597.5 | 517.2 | 440.2 | 569.5 |
| % change from '85 | 13.2 | 7.9 | 11.7 | 5.3 | .8 | -2.3 |
| 1987:1 | 724.6 | 2854.5 | 602.1 | 526.9 | 440.4 | 568.2 |
| 2 | 738.2 | 2910.3 | 609.5 | 534.2 | 438.3 | 573.1 |
| 3 | 746.8 | 2979.4 | 620.7 | 537.1 | 437.1 | 577.2 |
| 4 | 751.9 | 3036.2 | 633.4 | 547.0 | 435.2 | 581.4 |
| YEAR | 740.4 | 2945.1 | 633.4 | 547.0 | 435.2 | 581.4 |
| % change from '86 | 10.2 | 9.9 | 6.0 | 5.8 | -1.1 | 2.1 |
| 1988:1 | 777.3 | 3108.9 | 646.5 | 549.7 | 448.3 | 596.6 |
| 2 | 794.4 | 3163.5 | 653.8 | 553.9 | 450.6 | 605.8 |
| 3 | 807.5 | 3243.2 | 664.5 | 557.8 | 453.8 | 619.4 |
| 4 | 824.5 | 3319.6 | 680.4 | 565.0 | 457.2 | 630.5 |
| YEAR | 800.9 | 3208.8 | 680.4 | 565.0 | 457.2 | 630.5 |
| % change from '87 | 8.2 | 9.0 | 7.4 | 3.3 | 5.1 | 8.4 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

| | |
|---|---|
| +12.73% | S & P's 500 Avg. |
| + 2.52% | 20 yr. Govt. Bonds. Yield |
| + .98% | Aaa Corp. Bond Rate |
| + .03% | Prime Rate |
| 0.00% | Conv. Mortg. Rate |
| - .19% | Treas Bills 3 mo. Yield |

FORECAST DATA FOR STANDARD AND POOR'S 500 AVERAGE HAS BEEN INCREASED WHEN COMPARED TO THE JANUARY FORECAST BECAUSE OF THE UNPRECEDENTED BULLISH MARKET

Forecast data for interest rates and yields show further declines in the first half of this year and leveling off in the second half. No increases are predicted for this year.

Forecasts of 35 economists polled by the Wall Street Journal and published on January 5, 1987 come close to KEDI. The polled forecasters predict the 3 month Treasury bill rate to fall to less than 5% by mid year and to rebound slightly; Federal Reserve discount rate to drop to 4.5%, and 30 year government bonds to go down from the present 7 and 3/8% to 7% in the middle of the year and bounce back to 7.4% at year's end. That's coming close to what KEDI has predicted since last year.

KEDI has predicted good stock and bond markets, but not as good as it is right now.

### TABLE 1.80
### INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 1941-43 500 Avg |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | % |
| Year & Qtr. | | | | | | |
| 1985 | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3* | 5.52 | 7.85 | 9.84 | 8.81 | 7.38 | 241.15 |
| 4 | 5.30 | 7.50 | 9.62 | 8.63 | 7.18 | 262.27 |
| YEAR | 5.99 | 8.33 | 9.88 | 9.04 | 7.81 | 241.82 |
| % change from '85 | -19.9 | -11.6 | -11.2 | -20.1 | -28.2 | 29.4 |
| 1987:1 | 5.25 | 7.40 | 9.53 | 8.46 | 6.87 | 271.47 |
| 2 | 5.18 | 7.26 | 9.01 | 8.29 | 6.65 | 282.09 |
| 3 | 5.08 | 7.20 | 8.76 | 8.11 | 6.34 | 294.37 |
| 4 | 5.21 | 7.35 | 8.58 | 8.02 | 6.18 | 296.78 |
| YEAR | 5.18 | 7.30 | 8.97 | 8.22 | 6.51 | 286.18 |
| % change from '86 | -13.6 | -12.4 | -9.2 | -9.1 | -16.6 | 18.3 |
| 1988:1 | 5.28 | 7.46 | 8.60 | 7.91 | 6.24 | 298.56 |
| 2 | 5.39 | 7.51 | 8.72 | 7.96 | 6.27 | 302.41 |
| 3 | 5.44 | 7.58 | 8.83 | 8.12 | 6.48 | 600.08 |
| 4 | 5.52 | 7.60 | 8.87 | 8.28 | 6.64 | 296.51 |
| YEAR | 5.41 | 7.54 | 8.75 | 8.07 | 6.41 | 374.39 |
| % change from '87 | 4.4 | 3.2 | -2.4 | -1.9 | -1.6 | 30.8 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Consumer Price Index has been selected for comparison. The actual figure has been released by the U. S. Department of Labor, Washington, D. C. Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Virginia, February 1986). The following table shows the predictions of forecasters and deviations of forecast data.

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS

Consumer Price Index (1967=100)
Actual figure: 328.4

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy % |
|---|---|---|---|
| First Interstate Economics, p. 42* | 11/18/85 | 335.9 | 2.3 |
| Ashland Ohio, p. 44* | 12/85 | 334.9 | 2.0 |
| Manufacturers Hanover Trust Co., p. 45 | 12/85 | 334.2 | 1.8 |
| Research Seminar in Quantitative Economics, Univ. of Michigan, p. 49 | 12/12/85 | 334.9 | 2.0 |
| The Journal of Business Forecasting, p.51 | 1/86 | 335.0 | 2.0 |
| L. D. Reece, Cities Service Oil and Gas Corporation, p. 53 | 1/86 | 334.1 | 1.7 |
| Metropolitan Life Insurance Co., p. 55 | 1/1/86 | 335.5 | 2.2 |
| Armco, Inc., p. 59 | 1/22/86 | 333.6 | 1.6 |
| J. J. McAuley, Fordham Univ., p. 62 | 1/24/86 | 333.8 | 1.6 |
| Chase Econometrics, p. 65 | 1/29/86 | 333.3 | 1.5 |
| K.E.D.I., Inc | 1/2/86 | 331.6 | 1.0 |

* Calculated as average of four quarterly data.

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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**KENT ECONOMIC
AND DEVELOPMENT
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# KEDI ECONOMIC SURVEY

March 1, 1987

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SOURCES:

U.S.Department of Commerce second estimates of 1986:4 National Income and Product data, February 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, February 1987.

The latest available data on prices, employment, industrial and financial developments.

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# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Department of Commerce second estimate of GNP for fourth quarter 1986 shows a bit slower growth than previously announced.

### Prices

Indications apopear that business inflation is growing faster than anticipated while consumer inflation will remain low.

### Employment & Labor

Look for an improvement in the second half in employment figures as the impact of lowered value of the dollar takes effect.

### Housing

The number of housing starts this year will decline compared to 1986, mainly in the apartment building segment.

### Automobiles

1987 domestic car sales will decline compared to 1986 while imported car sales will remain at last year's level.

### Budgets

Congress is starting to act again like it did with the destrutive legislation of the 1970s.

### Income

Corporate after-tax profit will increase 11% in 1987 over 1986. Gains from the lower value of the dollar will benefit some.

### Money & Credit

At the February meeting of the Open Market Committee, the targets of monetary growth of M1 were abandoned--FINALLY!

### Interest Rates, Yields & Securities Prices

Average rates on credit cards have dropped from 18% in December 1986 to the present rate of 15-16%. Expect 12% by midyear.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the March 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1986 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3585.2 | 3997.1 | 4093.0 | 4191.2 |
| product, p. 5 | % change | 2.5 | 3.1 | 2.4 | 2.4 |
| Index of indust. | 1977=100 | 123.8 | 138.2 | 142.5 | 147.3 |
| prod., p. 5 | % change | 1.1 | 3.3 | 3.1 | 3.4 |
| Capacity | % | 80.4 | 81.0 | 80.2 | 79.4 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.2 | 6.6 | 6.5 | 6.6 |
| rate, p. 5 | % change | -3.1 | -1.1 | 1.1 | .8 |
| Private housing | mil.units | 1.7 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | 4.9 | — 4.2 | -2.4 | 3.3 |
| Car sales, | mil.units | 11.0 | 11.2 | 11.2 | 11.6 |
| p. 5 | % change | 3.2 | 2.7 | -.8 | 4.0 |
| Implicit GNP | 1982=100 | 111.5 | 126.6 | 131.1 | 136.5 |
| price def.,p.11 | % change | 2.6 | 3.3 | 3.6 | 4.1 |
| Consumer Price | 1967=100 | 322.2 | 358.4 | 370.9 | 384.3 |
| Index, p. 11 | % change | 1.9 | 3.3 | 3.5 | 3.6 |
| Prod.Price Index | 1967=100 | 293.7 | 329.0 | 343.8 | 355.5 |
| (fin.goods),p.11 | % change | -1.6 | 4.1 | 4.5 | 3.4 |
| Federal Deficit | bil. $ | -200.1 | -133.8 | -107.2 | -70.5 |
| p. 21 | % change | 15.1 | -14.1 | -19.9 | -34.2 |
| Personal Income | bil. $ | 3314.5 | 4176.9 | 4469.3 | 4800.0 |
| p. 23 | % change | 5.1 | 6.8 | 7.0 | 7.4 |
| Prime Rate | % | 9.4 | 8.1 | 8.9 | 9.6 |
| p. 27 | % change | -11.6 | 6.2 | 9.1 | 8.6 |
| Mortgage Rate | % | 11.1 | 9.1 | 8.9 | 9.1 |
| p. 27 | % change | -11.2 | 3.3 | -2.1 | 2.0 |
| Currency+demand | bil. $ | 593.6 | 844.6 | 902.0 | 958.8 |
| deposits , p. 25 | % change | 13.2 | 7.3 | 6.8 | 6.3 |
| Commercial+ind. | bil. $ | 493.9 | 581.8 | 598.7 | 611.3 |
| loans, p. 25 | % change | 5.3 | 3.0 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.3 | 90.8 | 91.3 |
| production | % change | -4.8 | .3 | .9 | .4 |
| Electric power | mil.kw-hr | 2576 | 3215 | 3330.7 | 3487.3 |
| production | % change | 6.5 | 3.9 | 3.6 | 4.7 |
| Bituminous coal | mil.sh.tons | 873 | 930 | 973.3 | 984.1 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil output | avg. daily bbl. | 3279 | 2325 | 2371.7 | 2423.9 |
| | % change | .9 | 1.9 | 2.0 | 2.2 |
| Retail sales | bil. $ | 1377.7 | 1765.5 | 1876.7 | 1989.3 |
| p. 7 | % change | 6.2 | 6.1 | 6.3 | 6.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

JANUARY AND FEBRUARY DATA POINT TO MODERATE GROWTH GETTING THE YEAR OFF TO A GOOD START.

* Index of Industrial Production up in January by a healthy .4%. Indications are that February will be the fifth straight month of continuous growth.

* Production of oil and gas extraction segment of the IIP went up by .2%. This is seen as the end of the downturn for that segment.

* Production of business equipment up.

* Strong retail sales in February show that consumer confidence remains.

* Capacity utilization in some export industries is increasing, notably in paper, plastics, and many nondurable industries.

* Awards for roads maintenance and repairs have increased significantly in January and February.

* Trouble spots remain, however, and are slowing down the rate of growth in most of durable manufacturing, construction of non-residential component and apartments, mining, except coal mining. Neither of the segments will improve this year.

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| + .26% | Private Housing Starts |
| 0.00% | Capacity Util. |
| - .01% | GNP |
| - .10% | Index Indus. Prod. |
| - .72% | Unemployment |
| - .95% | Autos |

### TABLE 1.11
### SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR<br>Unit | GNP<br>$82 bil. | Index of ind. prod**<br>1977=100 | Unem- ploy ment<br>% | Capacity util'n rate**<br>% | Private housing starts<br>mil. | Auto sales<br>mil. |
|---|---|---|---|---|---|---|
| Year & Qtr.<br>1985* | 3585.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.0 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3661.4 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3* | 3686.4 | 125.1 | 6.90 | 79.7 | 1.744 | 13.2 |
| 4 | 3698.3 | 125.9 | 6.83 | 79.6 | 1.672 | 10.8 |
| YEAR | 3675.5 | 125.1 | 6.99 | 79.6 | 1.828 | 11.3 |
| % change from '85 | 2.5 | 1.1 | -3.1 | -1.0 | 4.9 | 3.2 |
| 1987:1 | 3724.1 | 126.4 | 6.72 | 79.8 | 1.569 | 10.2 |
| 2 | 3756.0 | 127.6 | 6.75 | 79.7 | 1.713 | 10.4 |
| 3 | 3788.2 | 128.7 | 6.73 | 79.7 | 1.815 | 11.0 |
| 4 | 3825.9 | 131.6 | 6.70 | 80.0 | 1.721 | 10.0 |
| YEAR | 3773.6 | 128.6 | 6.72 | 79.8 | 1.704 | 10.4 |
| % change from '86 | 2.7 | 2.8 | -3.8 | .3 | -6.7 | -8.4 |
| 1988:1 | 3735.2 | 132.0 | 6.70 | 80.2 | 1.657 | 10.3 |
| 2 | 3860.4 | 133.0 | 6.67 | 80.4 | 1.769 | 10.8 |
| 3 | 3891.3 | 134.3 | 6.63 | 81.3 | 1.908 | 11.5 |
| 4 | 4020.7 | 135.8 | 6.51 | 81.7 | 1.812 | 11.2 |
| YEAR | 3876.9 | 133.8 | 6.63 | 80.9 | 1.786 | 10.9 |
| % change from '87 | 2.7 | 4.0 | -1.4 | 1.4 | 4.8 | 5.3 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

CONSUMERS WILL SHIFT FROM BIG TICKET ITEMS TO GENERAL STORE MERCHANDISE. STRONG SALES FORECAST FOR FOOD STORES.

January reports on weak retail sales are misleading due to low car sales. Adjusted for car sales, the rest of the data shows that consumers did not cut back on spending. Consumer purchases of nondurables will go up by 5.5-6.0% and will accelerate to 6-6.5% in the second half.

* Good sales forecast for general store merchandise and small items.

* Soft sales are seen for home furnishings and speciality stores.

* Weak sales are forecast for home electronics, big-ticket furniture and appliances, and, of course, cars.

March retail sales will be lower that March 1986 since Easter comes in April this year rather than in March.

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| + .35% | Retail Sales Nondurable |
| + .18% | Pers. Con. Exp. Services |
| + .23% | Retail Sales Total |
| + .03% | Retail Sales Durable |
| - 1.08% | Pers. Con. Exp. Nondurable |
| - 5.29% | Pers. Con. Exp. Durable |

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-* | | | *------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondur- ables | Services | Total | Durables | Nondur- ables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1985* | 359.3 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3* | 414.5 | 932.8 | 1452.4 | 1470.2 | 559.4 | 910.8 |
| 4 | 404.3 | 939.7 | 1478.5 | 1493.8 | 558.3 | 935.5 |
| YEAR | 388.4 | 932.6 | 1443.6 | 1455.1 | 544.0 | 911.0 |
| % change from '85 | 8.1 | 3.0 | 8.0 | 5.6 | 6.3 | 5.2 |
| 1987:1 | 402.1 | 946.1 | 1522.3 | 1504.9 | 560.4 | 944.5 |
| 2 | 404.3 | 956.2 | 1536.0 | 1454.7 | 557.8 | 896.9 |
| 3 | 411.2 | 970.4 | 1556.4 | 1580.3 | 582.0 | 998.3 |
| 4 | 414.1 | 983.2 | 1591.0 | 1609.7 | 591.4 | 1018.3 |
| YEAR | 407.9 | 964.0 | 1551.4 | 1537.4 | 572.9 | 964.5 |
| % change from '86 | 5.0 | 3.4 | 7.5 | 5.7 | 5.3 | 5.9 |
| 1988:1 | 416.8 | 1005.3 | 1489.0 | 1656.3 | 610.3 | 1046.0 |
| 2 | 422.3 | 1011.2 | 1645.1 | 1640.2 | 618.5 | 1021.7 |
| 3 | 445.9 | 1026.7 | 1641.6 | 1666.1 | 628.2 | 1037.9 |
| 4 | 462.8 | 1042.8 | 1793.5 | 1693.3 | 635.4 | 1057.9 |
| YEAR | 436.9 | 1021.5 | 1642.3 | 1664.0 | 623.1 | 1040.9 |
| % change from '87 | 7.1 | 6.0 | 5.9 | 8.2 | 8.8 | 7.9 |

## 1.13 REAL GNP

See Table 1.13
Page 9

DEPARTMENT OF COMMERCE SECOND ESTIMATE OF GNP FOR FOURTH QUARTER 1986 SHOWS A BIT SLOWER GROWTH THAN PREVIOUSLY ANNOUNCED IN THE FIRST ESTIMATE OF JANUARY 20.

Compared to the First (January 20) estimate, the new estimate shows:

- More personal consumption expenditures
- Less government spending
- Smaller export-import deficit
- Decrease in gross private domestic investment and a larger decline in inventories than previously announced.

The new data is more encouraging with more consumer spending and less government spending, as well as a lower trade deficit. Another good sign is the decline in business inventories. They are at very low levels now and cannot go down further--so the only direction is upward in months to come. This means that businesses will start to restock soon. That will push the GNP and the rate of growth up faster.

### 1987 FORECAST DATA

Percent Change from February 1987 Forecast

| | | |
|---|---|---|
| + | .08% | Gross Private Dom. Inv. |
| + | .03% | State Local Purch. |
| - | .01% | Federal Govt. Purch. |
| - | .01% | GNP |
| - | .05% | Pers. Cons. Expend. |
| - | .16% | Net Exports |

## TABLE 1.13
## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 2324.5 | 647.7 | -108.2 | 323.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3661.4 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3* | 3686.4 | 2448.0 | 651.3 | -163.3 | 330.9 | 419.5 |
| 4 | 3698.3 | 2447.4 | 631.7 | -16[illegible].0 | 350.6 | 419.7 |
| YEAR | 3675.5 | 2419.1 | 657.9 | -151.0 | 332.7 | 414.3 |
| % change from '85 | 2.5 | 4.1 | 1.6 | 39.6 | 2.8 | 4.2 |
| 1987:1 | 3742.3 | 2492.4 | 640.2 | -151.2 | 339.0 | 421.9 |
| 2 | 3756.2 | 2485.4 | 646.6 | -148.0 | 343.6 | 428.6 |
| 3 | 3788.5 | 2491.8 | 657.8 | -140.3 | 345.5 | 433.7 |
| 4 | 3826.8 | 2508.7 | 668.0 | -138.0 | 349.4 | 438.7 |
| YEAR | 3773.6 | 2489.7 | 653.1 | -144.4 | 344.4 | 430.7 |
| % change from '86 | 2.7 | 2.9 | -.7 | -4.4 | 3.5 | 4.0 |
| 1988:1 | 3833.4 | 2430.0 | 671.1 | -135.2 | 351.3 | 442.8 |
| 2 | 3857.7 | 2515.8 | 673.6 | -131.3 | 353.7 | 445.9 |
| 3 | 3886.2 | 2536.7 | 675.5 | -129.8 | 355.4 | 448.4 |
| 4 | 4012.5 | 2647.8 | 679.7 | -127.1 | 358.9 | 453.2 |
| YEAR | 3876.9 | 2535.1 | 675.0 | -130.8 | 350.1 | 447.6 |
| % change from '87 | 2.7 | 1.8 | 3.3 | -9.4 | 1.7 | 3.9 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| 0.00% | Consumer Price Index |
| - .03% | Producer Price Index |
| - .04% | Federal Govt. Purch. |
| - .04% | State Local Purch. |
| - .13% | GNP |
| - .20% | Pers. Cons. Expend. |

INDICATIONS APPEAR THAT BUSINESS INFLATION IS GROWING FASTER THAN ANTICIPATED WHILE CONSUMER INFLATION WILL REMAIN LOW.

* Recent survey of Purchasing Managers (Feb. 1987) has shown that 9 times more purchasing agents reported price increases than declines. The survey is conducted monthly by the National Association of Purchasing Managers.

* Prices of some products are starting to go up, mainly paper and paper products, forest products, especially lumber, and chemicals. Look for the prices to go up for plastics, rubber non-tire products, textiles, leather products, and kindred products and some food.

* Oil prices are definitely on the rise and will push energy prices upward.

* Prices of imported materials and consumer goods will continue increasing due to the weakness of the dollar which will mainly effect prices of imported crude materials.

Factors that will help to slow up inflation are:
- Too much unused capacity
- Relatively high unemployment
- Modest wage increases in labor contracts
- Worldwide excess production of materials

THERE IS NOT ENOUGH STEAM TO PUSH PRICES UPWARD--LOOK FOR MODEST INFLATION FOR BOTH BUSINESS AND CONSUMERS.

## TABLE 1.21
## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.2 | 293.7 | 111.5 | 111.5 | 109.4 | 116.0 |
| 1986:1* | 327.3 | 290.8 | 113.5 | 113.5 | 111.0 | 118.8 |
| 2* | 326.5 | 288.5 | 114.0 | 114.1 | 111.8 | 119.4 |
| 3* | 328.9 | 287.9 | 115.0 | 115.1 | 111.6 | 120.3 |
| 4 | 330.9 | 288.4 | 115.2 | 115.3 | 106.7 | 122.1 |
| YEAR | 328.4 | 288.9 | 114.4 | 114.2 | 110.3 | 120.2 |
| % change from '85 | 1.9 | -1.6 | 2.6 | 2.4 | .8 | 3.6 |
| 1987:1 | 333.0 | 292.6 | 116.4 | 115.1 | 112.8 | 122.3 |
| 2 | 335.5 | 297.4 | 117.2 | 116.5 | 114.0 | 124.4 |
| 3 | 337.7 | 302.3 | 118.1 | 117.9 | 115.2 | 125.5 |
| 4 | 340.2 | 306.2 | 119.3 | 119.1 | 117.0 | 127.6 |
| YEAR | 336.6 | 299.6 | 117.8 | 117.2 | 114.8 | 125.0 |
| % change from '86 | 2.5 | 3.7 | 2.9 | 2.6 | 4.1 | 4.0 |
| 1988:1 | 343.4 | 317.9 | 120.8 | 119.8 | 118.0 | 128.6 |
| 2 | 347.2 | 311.8 | 122.1 | 122.4 | 119.4 | 130.1 |
| 3 | 347.3 | 316.0 | 122.8 | 122.8 | 120.6 | 132.1 |
| 4 | 349.8 | 318.4 | 124.4 | 124.6 | 122.4 | 133.7 |
| YEAR | 346.9 | 316.0 | 122.5 | 122.4 | 120.1 | 131.1 |
| % change from '87 | 3.1 | 5.5 | 4.1 | 4.4 | 4.7 | 4.9 |

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | | |
|---|---|---|
| + | .12% | Net Exports |
| - | .01% | State Local Purch. |
| - | .02% | Gross Private Dom. Inv. |
| - | .04% | Federal Govt. Purch. |
| - | .14% | GNP |
| - | .20% | Pers. Cons.te Expend. |

COMPARED TO THE JANUARY ESTIMATE OF THE 1986:4 NOMINAL GNP, THE NEW FEBRUARY ESTIMATE LOOKS BETTER.

The new estimates from the Department of Commerce show the trade gap narrowing somewhat, and the federal government spending less.

Two main imbalances persist among components of GNP: the foreign trade gap and low spending of businesses on plants and equipment.

Forecast data does not show a significant reduction in the nominal net exports gap until 1988.

The outlook on business capital spending is also cloudy. Forecast for 1987 calls for some improvement in the second half of this year. In 1988, the outlook shows, again, no significant improvement. Do not expect marked improvement before 1990 and the following years.

Business Capital Spending
% increases over previous year
Nominal values

| | |
|---|---|
| 1987 | +1.2 |
| 1988 | +1.8 |
| 1989 | +1.7 |
| 1990 | +2.7 |

### TABLE 1.22
### NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product: Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3* | 4240.7 | 2799.8 | 675.8 | -108.9 | 369.3 | 504.7 |
| 4 | 4260.6 | 2812.5 | 665.3 | -113.6 | 374.0 | 512.5 |
| YEAR | 4205.7 | 2760.3 | 684.2 | -105.2 | 366.6 | 497.7 |
| % change from '85 | 5.2 | 5.4 | 3.5 | 33.3 | 3.5 | 7.9 |
| 1987:1 | 4334.9 | 2869.2 | 678.1 | -110.8 | 382.4 | 516.0 |
| 2 | 4402.0 | 2896.5 | 687.0 | -106.4 | 391.7 | 533.2 |
| 3 | 4473.9 | 2938.0 | 695.7 | -102.1 | 398.0 | 544.3 |
| 4 | 4564.3 | 2988.3 | 703.0 | -95.6 | 408.8 | 559.8 |
| YEAR | 4443.8 | 2923.0 | 691.0 | -103.7 | 395.2 | 538.3 |
| % change from '86 | 5.7 | 5.9 | 1.0 | -1.4 | 7.8 | 8.2 |
| 1988:1 | 4512.1 | 2911.1 | 708.2 | -91.2 | 414.5 | 569.4 |
| 2 | 4713.5 | 3078.6 | 712.4 | -79.9 | 422.3 | 580.1 |
| 3 | 4778.5 | 3114.2 | 720.2 | -76.8 | 428.6 | 592.3 |
| 4 | 5001.8 | 3299.1 | 725.8 | -68.4 | 439.3 | 605.9 |
| YEAR | 4750.2 | 3102.5 | 716.6 | -79.1 | 426.2 | 587.0 |
| % change from '87 | 6.9 | 6.1 | 3.7 | -23.8 | 7.8 | 9.0 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change from February 1987 Forecast

| | |
|---|---|
| 0.00% | Civilian Labor Force |
| 0.00% | Agriculture |
| - .02% | Total Employed |
| - .02% | Non-Agri. |
| - .09% | Population |
| - .66% | Unemployment rate |

LOOK FOR AN IMPROVEMENT IN THE SECOND HALF OF THIS YEAR IN EMPLOYMENT FIGURES AS THE IMPACT OF THE LOWERED VALUE OF THE DOLLAR TAKES EFFECT.

The unemployment rate will hover around 6.7% this year and will keep declining in years to come.

The improved employment rate will be felt by:

* Paper and products
* Organic chemicals
* Plastics
* Lumber and products
* Oil and gas extraction

Employment problems will persist in:

* Primary metals
* Nonresidential building
* Apartments
* Metalworking machinery
* Farm machinery and equipment

Look for higher than normal layoffs in the auto industry.

Employment in metallic ores mining will stabilize.

## TABLE 1.30
## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non-agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3* | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4 | 249.8 | 118.7 | 110.6 | 3.1 | 107.5 | 6.83 |
| YEAR | 246.9 | 117.9 | 109.9 | 3.2 | 106.8 | 6.99 |
| % change from '85 | 2.1 | 2.2 | 2.0 | -.8 | 2.8 | -3.09 |
| 1987:1 | 250.7 | 119.1 | 111.1 | 3.1 | 108.0 | 6.72 |
| 2 | 252.3 | 120.2 | 112.1 | 3.1 | 109.0 | 6.75 |
| 3 | 254.0 | 121.5 | 113.3 | 3.1 | 110.2 | 6.73 |
| 4 | 256.1 | 122.0 | 113.8 | 3.1 | 110.7 | 6.70 |
| YEAR | 253.3 | 120.7 | 112.6 | 3.1 | 109.5 | 6.72 |
| % change from '86 | 2.6 | 2.4 | 2.5 | -2.4 | 2.5 | -3.76 |
| 1988:1 | 257.5 | 122.7 | 114.5 | 3.1 | 111.4 | 6.70 |
| 2 | 259.6 | 123.6 | 115.4 | 3.0 | 112.4 | 6.67 |
| 3 | 261.4 | 124.8 | 116.5 | 3.0 | 113.5 | 6.63 |
| 4 | 263.5 | 126.0 | 117.8 | 3.0 | 114.8 | 6.51 |
| YEAR | 260.5 | 124.3 | 116.0 | 3.1 | 112.9 | 6.63 |
| % change from '87 | 2.9 | 3.0 | 3.0 | 0.0 | 3.2 | -1.45 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| + .65% | Single Family Housing Starts |
| + .50% | 1-Family unit price Existing |
| + .27% | 1-Family Unit price New |
| + .21% | Multiple Family Housing Starts |
| + .15% | Permits Issued |
| - .09% | Mobile Home Shipments |

THE NUMBER OF HOUSING STARTS THIS YEAR WILL DECLINE COMPARED TO 1986, MAINLY IN THE APARTMENT SEGMENT.

The pent-up demand for housing has largely been satisfied.

There will be a slowdown for next year or year and a half before recovery in the housing cycle starts in 1988.

Indications of a slowdown in housing starts are apparent.

The number of unsold homes has been increasing for four consecutive months.

Latest data for January show 6.3 months supply compared to the December 1986 figure of 5.9 months.

KEDI forecast takes into account the stimulative impact of low mortgage rates. Look for further drops in mortgage rates in the coming months.

Without expected declines in mortgage rates, the housing starts would decline even more this year.

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts<br>mil. | Multi-family housing starts<br>mil. | Mobile home ship-ments<br>mil. | Permits author-ized<br>mil. | 1-Fam. unit price new**<br>tho. $ | 1-Fam. unit price exist**<br>tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .283 | 1.735 | 101.0 | 90.3 |
| 1986:1* | 1.257 | .733 | .274 | 1.839 | 103.4 | 91.8 |
| 2* | 1.242 | .663 | .280 | 1.805 | 104.7 | 94.7 |
| 3* | 1.142 | .602 | .278 | 1.678 | 106.2 | 96.7 |
| 4 | 1.131 | .541 | .274 | 1.591 | 110.5 | 97.9 |
| YEAR | 1.193 | .635 | .277 | 1.728 | 106.2 | 95.3 |
| % change from '85 | 11.3 | -5.1 | -2.3 | -.4 | 5.1 | 5.5 |
| 1987:1 | 1.052 | .517 | .254 | 1.521 | 110.6 | 99.5 |
| 2 | 1.121 | .592 | .280 | 1.676 | 111.9 | 100.4 |
| 3 | 1.179 | .636 | .271 | 1.719 | 112.9 | 101.1 |
| 4 | 1.105 | .616 | .262 | 1.734 | 115.0 | 103.8 |
| YEAR | 1.114 | .590 | .267 | 1.663 | 112.6 | 101.2 |
| % change from '86 | -6.6 | -7.0 | -3.5 | -3.8 | 6.0 | 6.2 |
| 1988:1 | 1.032 | .625 | .263 | 1.626 | 115.7 | 105.4 |
| 2 | 1.121 | .648 | .276 | 1.730 | 118.3 | 107.1 |
| 3 | 1.245 | .663 | .298 | 1.845 | 120.2 | 108.3 |
| 4 | 1.168 | .644 | .297 | 1.821 | 123.1 | 109.2 |
| YEAR | 1.141 | .645 | .283 | 1.756 | 119.3 | 107.5 |
| % change from '87 | 2.4 | 9.3 | 6.3 | 5.6 | 6.0 | 6.2 |

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*Historical data.

**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| + 2.21% | Total Light Truck Sales |
| + 1.97% | Shipments |
| .00% | Domestic Car Sales |
| .00% | Imported Car Sales |
| - .95% | Total Car Sales |
| - 5.56% | Dealer Inventory |

1987 DOMESTIC CAR SALES WILL DECLINE COMPARED TO 1986 WHILE IMPORTED CAR SALES WILL REMAIN AT LAST YEARS LEVEL.

The market share of producers will change when compared to 1986.

Forecast of Market Shares in 1987 (% of US produced passenger cars)

| | |
|---|---|
| GM | 48.1 |
| Ford | 26.1 |
| Chrysler | 15.0 |
| VW | .9 |
| AM | .4 |
| American Honda, Nissan, & Toyota | 9.5 |

This shows a drop for GM from 55% in 1986.

VW and AM drop from 3% to 1.3%

Gains of US produced Japanese models will increase from 5.3% in 1986.

In January 1987, the seasonally adjusted sales rate was 5.9 million compared to 8 million in January 1986. February is expected to be at the 7.3 million level compared to 8 million in the same month last year.

LOOK FOR NEW SALES INCENTIVES!

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.0 | 8.2 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.9 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.8 | 8.3 | 3.5 |
| 3* | 13.2 | 9.7 | 3.5 | 1.3 | 11.0 | 3.6 |
| 4 | 10.8 | 7.2 | 3.0 | 1.4 | 8.9 | 3.3 |
| YEAR | 11.3 | 8.1 | 3.1 | 1.4 | 9.0 | 3.5 |
| % change from '85 | 3.2 | -.9 | 9.8 | 7.7 | 6.8 | -6.8 |
| 1987:1 | 10.2 | 7.3 | 2.9 | 1.7 | 7.7 | 3.3 |
| 2 | 10.4 | 7.4 | 3.0 | 1.8 | 7.6 | 3.5 |
| 3 | 11.0 | 7.7 | 3.3 | 1.7 | 7.9 | 3.6 |
| 4 | 10.0 | 6.8 | 3.2 | 1.7 | 7.8 | 3.5 |
| YEAR | 10.4 | 7.3 | 3.1 | 1.7 | 7.8 | 3.5 |
| % change from '86 | -8.4 | -9.2 | .8 | 21.4 | -13.6 | .7 |
| 1988:1 | 10.3 | 7.0 | 3.3 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.5 | 8.2 | 3.3 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 7.9 | 3.3 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.7 | 3.2 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 5.3 | .4 | 4.8 | 0.0 | 1.9 | 2.9 |

---

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| + .41% | State Income Tax |
| + .18% | Federal Surplus/ Deficit |
| - .09% | Federal Income Tax |
| - .25% | State Surplus/ Deficit |
| - .44% | Corp. Profit Tax Accrued |
| - 2.28% | State Local Corp. Tax Accrued |

CONGRESS IS STARTING TO ACT AGAIN LIKE IT DID WITH THE DESTRUCTIVE LEGISLATION OF THE 1970s.

Congress is poised to open the dike of spending:

* Both the Senate and House overrode the President's veto to spend $20 billion through 1994 to clean up the nation's water. ($6 bil. more than the President recommended)

* The Senate passed the $65 billion highway and mass transit bill ($5 billion over the President's proposal).

If Congress continues to ignore the fact that PUBLIC NEEDS ARE UNLIMITED while TAXPAYERS' RESOURCES ARE NOT, it can only lead to higher taxation to support these mass public projects.

Federal spending slowed from a 15% growth in 1979 to an estimated three percent less in 1987. That is an excellent achievement.

KEDI's forecast of the Federal budget is based on the assumption that Congress does not go hog wild again. The target of the Federal Budget deficit for fiscal year 1988 (starting Oct. 1, 1987) is fully attainable.

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | FEDERAL | | | STATE AND LOCAL | | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3* | 365.8 | 84.3 | -197.4 | 153.1 | 20.1 | 64.0 |
| 4 | 376.1 | 85.4 | -191.1 | 158.9 | 21.6 | 65.9 |
| YEAR | 361.3 | 79.0 | -207.1 | 152.7 | 19.3 | 64.7 |
| % change from '85 | 3.0 | 16.7 | 3.5 | 7.6 | 6.8 | 9.3 |
| 1987:1 | 388.6 | 86.8 | -180.5 | 159.4 | 21.8 | 67.8 |
| 2 | 396.3 | 90.2 | -177.3 | 162.7 | 22.0 | 69.0 |
| 3 | 400.1 | 93.0 | -173.5 | 166.8 | 22.6 | 70.1 |
| 4 | 401.9 | 94.8 | -170.8 | 168.2 | 23.5 | 73.6 |
| YEAR | 396.7 | 91.2 | -175.5 | 164.3 | 22.5 | 70.1 |
| % change from '86 | 9.8 | 15.4 | -15.2 | 7.6 | 16.3 | 8.3 |
| 1988:1 | 408.9 | 97.0 | -165.9 | 169.8 | 24.1 | 75.3 |
| 2 | 415.1 | 98.9 | -161.2 | 171.9 | 25.2 | 77.2 |
| 3 | 419.4 | 102.8 | -152.8 | 173.8 | 25.8 | 78.1 |
| 4 | 425.1 | 105.7 | -143.1 | 177.0 | 26.1 | 79.2 |
| YEAR | 417.1 | 101.1 | -155.8 | 173.1 | 25.3 | 77.5 |
| % change from '87 | 5.1 | 10.9 | -11.3 | 5.4 | 12.6 | 10.4 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | |
|---|---|
| - .02% | Comp. of Employees |
| - .16% | Corp. After Tax Profit |
| - .65% | Average Weekly Earnings |
| - 1.09% | Personal Income |
| - 1.30% | Personal Disp. Income |
| -29.68% | Personal Savings |

CORPORATE AFTER TAX PROFIT WILL INCREASE 11% IN 1987 OVER 1986. GAINS FROM THE LOWER INTERNATIONAL VALUE OF THE DOLLAR ARE EXPECTED IN SOME INDUSTRIES.

Most forecasters are now predicting strong gains and KEDI maintains its forecast of 11% increase of after-tax profits in 1987 over 1986.

Significant gains from the lower international value of the dollar are expected mainly in chemicals, paper, and plastics. Increasing producer prices will also add up to the strength of corporate profits. Expect main impact of higher prices in textile, apparel, leather products, some segments of machinery, instruments, and non-tire rubber products.

### PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME

The January data in PI and PDI is not indicative. Lower tax rates that have been effective since January 1st have not yet been transferred entirely into paychecks.

Forecast data show regular upward trends in personal income, personal disposable income and their components throughout the year.

### TABLE 1.60
### INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3* | 3498.8 | 2979.9 | 2507.4 | 135.9 | 84.1 | 393.7 |
| 4 | 3529.6 | 2994.6 | 2541.3 | 137.4 | 73.5 | 397.6 |
| YEAR | 3490.5 | 2976.4 | 2499.3 | 136.6 | 114.1 | 394.1 |
| % change from '85 | 5.3 | 5.2 | 5.5 | 4.0 | -20.4 | 3.2 |
| 1987:1 | 3608.1 | 3060.1 | 2570.2 | 142.5 | 86.5 | 398.9 |
| 2 | 3662.3 | 3103.3 | 2614.1 | 148.6 | 97.4 | 402.3 |
| 3 | 3715.0 | 3148.1 | 2669.1 | 156.0 | 99.6 | 409.6 |
| 4 | 3775.3 | 3205.2 | 2726.7 | 161.1 | 108.3 | 411.4 |
| YEAR | 3690.1 | 3129.1 | 2645.0 | 152.1 | 98.0 | 405.6 |
| % change from '86 | 5.7 | 5.1 | 5.8 | 11.3 | -14.1 | 2.9 |
| 1988:1 | 3708.6 | 3129.9 | 2770.1 | 163.5 | 112.4 | 414.5 |
| 2 | 3881.2 | 3294.2 | 2805.0 | 167.0 | 116.2 | 417.3 |
| 3 | 3932.7 | 3339.5 | 2876.1 | 172.3 | 120.7 | 420.2 |
| 4 | 4121.5 | 3519.4 | 2915.7 | 175.7 | 129.4 | 423.7 |
| YEAR | 3911.0 | 3320.7 | 2841.7 | 169.6 | 119.7 | 418.9 |
| % change from '87 | 6.0 | 6.1 | 7.4 | 11.6 | 22.2 | 3.3 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
February 1987
Forecast

| | | |
|---|---|---|
| + | .80% | Currency & Demand Deposits |
| + | .16% | Large Denom. Time Deposits |
| + | .03% | Mortg. as S & L Assns. |
| - | .03% | Time Deposits |
| - | .31% | Comm. & Indust. Lonas at Banks |
| - | .51% | Consumer Install. Credit |

AT THE FEBRUARY MEETING OF THE OPEN MARKET COMMITTEE, THE TARGETS OF MONETARY GROWTH OF M1 WERE ABANDONED--FINALLY!

KEDI has been emphasizing in this Survey that there is NO RELATIONSHIP in the current phase of the cycle between the growth of the economy and growth of money supply, M1. Also, there is no relationship between the rate of inflation and rate of growth of M1. In the past three years, M1 has been sky-rocketing while inflation declined. Growth of the economy was not disturbed by an unprecendented fast growth of M1. Forecast data show that M1 will continue to grow at a fast pace. Accordingly, money supply M1 will continue growing for as long as the stock market keeps going up and the trade deficit remains large. These are the two main reasons for the fast growth of M1: supplying money to the stock market and financing the trade deficit.

No significant changes in forecasts of monetary and credit aggregates when compared to KEDI's last forecast.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit n.s.a. | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 535.1 | 493.9 | 436.5 | 583.2 |
| 1986:1* | 629.8 | 2581.3 | 550.9 | 502.1 | 450.4 | 574.7 |
| 2* | 657.8 | 2645.7 | 567.7 | 508.0 | 448.5 | 565.2 |
| 3* | 685.0 | 2719.6 | 584.3 | 511.4 | 443.4 | 558.4 |
| 4 | 715.2 | 2773.2 | 597.5 | 517.1 | 440.6 | 568.4 |
| YEAR | 672.0 | 2679.9 | 597.5 | 51.1 | 440.6 | 568.4 |
| % change from '85 | 13.2 | 7.9 | 11.7 | 5.3 | .9 | -2.5 |
| 1987:1 | 732.1 | 2853.5 | 598.3 | 526.7 | 440.0 | 568.9 |
| 2 | 743.3 | 2909.7 | 608.1 | 534.0 | 438.5 | 573.0 |
| 3 | 751.6 | 2980.1 | 618.3 | 536.8 | 437.2 | 577.0 |
| 4 | 758.3 | 3034.1 | 630.2 | 545.3 | 435.9 | 581.6 |
| YEAR | 746.3 | 2944.3 | 630.2 | 545.3 | 435.9 | 581.6 |
| % change from '86 | 11.1 | 9.9 | 5.5 | 967.1 | -1.1 | 2.3 |
| 1988:1 | 770.2 | 3109.2 | 641.4 | 549.1 | 447.0 | 596.1 |
| 2 | 782.4 | 3164.3 | 652.7 | 553.0 | 449.0 | 605.4 |
| 3 | 791.3 | 3246.8 | 662.6 | 557.7 | 453.0 | 619.3 |
| 4 | 804.6 | 3321.7 | 678.4 | 564.9 | 456.3 | 630.2 |
| YEAR | 787.1 | 3210.5 | 679.4 | 564.9 | 456.3 | 630.2 |
| % change from '87 | 5.5 | 9.0 | 7.8 | 3.6 | 4.7 | 8.4 |

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*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

AVERAGE RATES ON CREDIT CARDS HAVE DROPPED FROM 18% IN DECEMBER 1986 TO THE PRESENT RATE OF 15-16%. EXPECT FURTHER DECLINES TO 12% BY MIDYEAR, THEN LEVELING OFF.

In October 1986, KEDI labeled two main candidates for declines in rates: credit cards and mortgages. Both are declining and will continue to do so.

Conventional mortgage rates (30 yr.) at the end of February 1987 stood at 9.08%, down from January's 9.11%, and from 10.20% a year earlier. Expect further declines throughout this year.

Forecast of other interest rates remains essentially unchanges: slight further declines, leveling off in the second half of this year.

No downturns of stock and bond markets are predicted. Look for a strong performance with gradual increases through this year.

1987
FORECAST
DATA

Percent Change from February 1987 Forecast

| | |
|---|---|
| + 2.11% | 20 yr. Govt. Bonds Yield |
| + 1.85% | Prime Rate |
| + 1.70% | Conv. Mortg. Rate |
| + 1.64% | Treas. Bills 3 mo. Yield |
| + 1.22% | Aaa Corp. Bond Rate |
| + .15% | S & P's 500 Avg. |

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 20 yr. Govt. bonds yield<br>% | S & P's 1941-43 500 Avg<br>% |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3* | 5.52 | 7.85 | 9.84 | 8.81 | 7.38 | 241.15 |
| 4 | 5.34 | 7.50 | 9.62 | 8.63 | 7.31 | 262.27 |
| YEAR | 6.00 | 8.33 | 9.88 | 9.04 | 7.84 | 241.82 |
| % change from '85 | -19.8 | -11.6 | -11.2 | -20.1 | -27.9 | 29.4 |
| 1987:1 | 5.35 | 7.50 | 9.51 | 8.57 | 6.94 | 273.49 |
| 2 | 5.26 | 7.46 | 9.14 | 8.38 | 6.83 | 284.16 |
| 3 | 5.18 | 7.38 | 8.96 | 8.19 | 6.55 | 293.02 |
| 4 | 5.27 | 7.40 | 8.88 | 8.14 | 6.27 | 295.71 |
| YEAR | 5.26 | 7.44 | 9.12 | 8.32 | 6.65 | 286.60 |
| % change from '86 | -12.3 | -10.8 | -7.6 | -8.0 | -15.2 | 18.5 |
| 1988:1 | 5.36 | 7.51 | 8.71 | 8.02 | 6.31 | 298.94 |
| 2 | 5.47 | 7.59 | 8.83 | 8.05 | 6.39 | 303.52 |
| 3 | 5.49 | 7.70 | 8.89 | 8.14 | 6.57 | 301.14 |
| 4 | 5.58 | 7.80 | 8.94 | 8.29 | 6.73 | 298.64 |
| YEAR | 5.47 | 7.65 | 8.84 | 8.12 | 6.50 | 300.56 |
| % change from '87 | 4.0 | 2.9 | -3.1 | -2.3 | -2.2 | 4.9 |

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*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the Consumer Price Index are continued from the February issue of the KEDI Economic Survey, p. 28. The February issue contains forecast data of those forecasters who reported their expected levels of CPI in 1986. This issue contains forecast data of those forecasters who reported their expected percent changes of CPI in 1986 over 1985. The accuracy of forecasts is calculated here as a difference between the forecasted percentage and the actual percentage.

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS

Consumer Price Index (1967=100, percent change, 1986 over 1985)
Actual figure: 1.9

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy percent difference |
|---|---|---|---|
| American Statistical Assn., and National Bureau of Economic Research, p. 43 | 12/85 | 3.6 | 1.7 |
| UCLA Business Forecasting Project | 12/85 | 3.6 | 1.7 |
| U.S. Chamber of Commerce, p. 47 | 12/85 | 3.4 | 1.5 |
| The Equitable Life Assurance Society of the U.S., p. 48 | 12/4/85 | 3.5 | 1.6 |
| Mellon Bank, p. 52 | 1/86 | 2.9 | 1.0 |
| Wharton Econometric Forecasting Associates, Inc., p. 54 | 1/86 | 3.1 | 1.2 |
| The First National Bank of Chicago, p. 56 | 1/7/86 | 3.9 | 2.0 |
| Citicorp Economic Services, p. 57 | 1/8/86 | 4.1 | 2.2 |
| Standard & Poor°s Corp., p. 58 | 1/16/86 | 3.3 | 1.4 |
| Data Resources, Inc., p. 60 | 1/22/86 | 3.2 | 1.3 |
| Shearson Lehman Bros., Inc., p. 61 | 1/23/86 | 3.5 | 1.6 |
| AmeriTrust Company, p. 63 | 1/27/86 | 3.9 | 2.0 |
| KEDI, Inc. | 2/1/87 | 2.9 | 1.0 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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# KEDI ECONOMIC SURVEY

April 1, 1987

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SOURCES:

U.S.Department of Commerce third estimates of 1986:4, National Income and Product data, March 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, March 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Factory orders are up in March and unemployment is down. Recent data confirm that the economy is on good track.

### Prices

Consumer inflation measured by CPI will remain moderate. Do not expect any significant increases of prices of imported goods.

### Employment & Labor

The unemployment rate dropped another .1% in March to 6.6% from 6.7% in February. Look for positive developments in months ahead.

### Housing

The outlook remains bright through the first half of this year with a slowing down trend in the second half.

### Automobiles

Weak spring selling season is expected since the effect of incentives is reaching the point of diminishing returns.

### Budgets

The Federal Deficit can only be reduced by cutting spending and not by raising taxes.

### Income

Personal Disposable Income, and Compensation of Employees point to regular, non-inflationary growth this year and next.

### Money & Credit

Forecast data show a slowing down of consumer installment credit, mortgages, and commercial and industrial loans.

### Interest Rates, Yields & Securities Prices

KEDI does not anticipate more significant declines in the international value of the dollar in W. Europe or Japan.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the April 1987 KEDI forecast.
- In 1987 moderate growth is expected. It will accelerate in 1988.
- The upward trend will continue throughout 1989-1990.
- Forecast data for 1987-1990 do not point to recession or major downturn.
- In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.
- Federal budget deficits will keep declining in 1987 and the following fiscal years.
- The 1987 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3585.2 | 4000.6 | 4096.6 | 4203.1 |
| product, p. 5 | % change | 2.5 | 3.1 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 123.8 | 138.3 | 142.7 | 147.5 |
| prod., p. 5 | % change | 1.0 | 3.3 | 3.2 | 3.4 |
| Capacity | % | 80.4 | 81.0 | 80.2 | 79.4 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.2 | 6.5 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | -1.2 | 1.1 | -.9 |
| Private housing | mil.units | 1.7 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | 4.9 | 4.0 | -2.4 | 3.5 |
| Car sales, | mil.units | 11.0 | 11.2 | 11.1 | 11.6 |
| p. 5 | % change | 3.2 | 2.7 | -.9 | 4.0 |
| Implicit GNP | 1982=100 | 111.5 | 126.6 | 131.2 | 136.4 |
| price def.,p.11 | % change | 2.6 | 3.3 | 3.6 | 4.0 |
| Consumer Price | 1967=100 | 322.2 | 359.0 | 370.4 | 383.8 |
| Index, p. 11 | % change | 1.9 | 3.4 | 3.2 | 3.6 |
| Prod.Price Index | 1967=100 | 293.7 | 329.0 | 343.8 | 355.5 |
| (fin.goods),p.11 | % change | -1.6 | 4.1 | 4.5 | 3.4 |
| Federal Deficit | bil. $ | -200.1 | -130.9 | -104.8 | -69.0 |
| p. 21 | % change | 15.1 | -15.4 | -19.9 | -34.2 |
| Personal Income | bil. $ | 3314.5 | 4198.3 | 4483.8 | 4820.0 |
| p. 23 | % change | 5.1 | 6.9 | 6.8 | 7.5 |
| Prime Rate | % | 9.4 | 8.2 | 8.9 | 9.7 |
| p. 27 | % change | -11.6 | 6.2 | 9.1 | 8.6 |
| Mortgage Rate | % | 11.1 | 9.2 | 9.0 | 9.2 |
| p. 27 | % change | -11.7 | 3.5 | -2.1 | 2.0 |
| Currency+demand | bil. $ | 593.6 | 849.4 | 907.1 | 966.1 |
| deposits , p. 25 | % change | 13.4 | 7.5 | 6.8 | 6.5 |
| Commercial+ind. | bil. $ | 493.9 | 582.4 | 599.3 | 611.9 |
| loans, p. 25 | % change | 5.3 | 3.1 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.3 | 90.8 | 91.3 |
| production | % change | -4.8 | .3 | .9 | .4 |
| Electric power | mil.kw-hr | 2576 | 3215 | 3330.7 | 3487.3 |
| production | % change | 6.5 | 3.9 | 3.6 | 4.7 |
| Bituminous coal | mil.sh.tons | 873 | 930 | 973.3 | 984.1 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2325 | 2371.7 | 2423.9 |
| output | % change | .9 | 1.9 | 2.0 | 2.2 |
| Retail sales | bil. $ | 1377.7 | 1768.9 | 1876.8 | 2008.2 |
| p. 7 | % change | 6.2 | 6.3 | 6.1 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

### 1987 FORECAST DATA

Percent Change from March 1987 Forecast

| | |
|---|---|
| + 4.38% | Private Housing Starts |
| + .08% | Index Indus. Prod. |
| 0.00% | Autos |
| 0.00% | Capacity Util. |
| - .03% | GNP |
| - 1.23% | Unemployment |

### FACTORY ORDERS ARE UP IN MARCH AND UNEMPLOYMENT IS DOWN.

Recent data confirm that the economy is on good track, and point to good prospects for the future:

* March new orders up:
February 186.6
March 194.6

* Impact of lower value of the dollar against some currencies is starting to benefit industries, mainly:
paper, chemicals, forest products, drugs, cosmetics, computers, non-electrical machinery.

* Data on Index of Purchasing Managers for March 53.9%. Above 50% is an indication of an expanding economy.

* Index of Leading Indicators:
February + .7%
March + .3%

* Recent US Dept of Commerce Survey on business capital spending reveals that businesses are revising their plans upward. In the last survey: + .8% capital spending in 1987 over 1986. This recent survey calls for +1.8% in 1987 over 1986.

* March unemployment rate was down to 6.6% from February` 6.7%.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem-ploy ment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.0 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3661.4 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3* | 3686.4 | 125.0 | 6.90 | 79.7 | 1.744 | 13.2 |
| 4* | 3696.1 | 125.9 | 6.83 | 79.6 | 1.672 | 10.8 |
| YEAR | 3674.9 | 125.1 | 6.99 | 79.6 | 1.828 | 11.3 |
| % change from '85 | 2.5 | 1.0 | -3.1 | -1.0 | 4.9 | 3.2 |
| 1987:1 | 3724.0 | 127.0 | 6.67 | 79.7 | 1.829 | 10.2 |
| 2 | 3755.0 | 127.5 | 6.65 | 79.8 | 1.802 | 10.4 |
| 3 | 3786.2 | 128.7 | 6.63 | 79.7 | 1.792 | 11.0 |
| 4 | 3824.5 | 131.6 | 6.60 | 80.0 | 1.675 | 10.0 |
| YEAR | 3772.4 | 128.7 | 6.64 | 79.8 | 1.774 | 10.4 |
| % change from '86 | 2.7 | 2.9 | -5.0 | .3 | -2.9 | -8.4 |
| 1988:1 | 3737.4 | 132.0 | 6.58 | 80.2 | 1.611 | 10.3 |
| 2 | 3862.6 | 133.1 | 6.57 | 80.4 | 1.794 | 10.8 |
| 3 | 3894.5 | 134.4 | 6.53 | 81.3 | 1.937 | 11.5 |
| 4 | 4026.8 | 135.9 | 6.50 | 81.7 | 1.823 | 11.2 |
| YEAR | 3880.3 | 133.8 | 6.54 | 80.9 | 1.791 | 10.9 |
| % change from '87 | 2.9 | 4.0 | -1.4 | 1.4 | .9 | 5.3 |

---

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | | |
|---|---|---|
| + | .15% | Retail Sales Nondurable |
| + | .04% | Pers. Con. Exp. Nondurable |
| - | .01% | Retail Sales Total |
| - | .09% | Pers. Con. Exp. Durable |
| - | .29% | Retail Sales Durable |
| - | .31% | Pers. Con. Exp. Services |

TOTAL RETAIL SALES FOR 1987 WILL SLOW DOWN SOMEWHAT COMPARED TO 1986, DUE TO EXPECTED DECLINE IN CAR SALES.

Data on retail sales for March are lackluster--probably cause by the fact that Easter is late this year. There is absolutely no indication of consumer fatigue or that retail sales are heading for rough times.

* Nondurables sales will increase significantly and outweigh the decline in car sales.

* Expect good increases in all categories of nondurables.

* In 1988 car sales will be back on track and lead, again, the volume of retail sales.

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-* | | | *------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1985* | 359.3 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3* | 414.5 | 932.8 | 1452.4 | 1470.2 | 559.4 | 910.8 |
| 4* | 403.1 | 940.1 | 1477.2 | 1496.9 | 560.3 | 935.5 |
| YEAR | 388.1 | 932.8 | 1443.3 | 1455.9 | 544.5 | 911.0 |
| % change from '85 | 8.0 | 3.1 | 8.0 | 5.7 | 6.4 | 5.2 |
| 1987:1 | 402.1 | 946.1 | 1512.9 | 1504.8 | 554.9 | 949.9 |
| 2 | 404.1 | 956.4 | 1536.0 | 1454.7 | 560.3 | 894.4 |
| 3 | 410.3 | 970.4 | 1556.4 | 1580.1 | 579.7 | 1000.4 |
| 4 | 413.6 | 984.5 | 1597.6 | 1609.2 | 590.0 | 1019.2 |
| YEAR | 407.5 | 964.4 | 1550.8 | 1537.2 | 571.2 | 966.0 |
| % change from '86 | 5.0 | 3.4 | 7.4 | 5.6 | 4.9 | 6.0 |
| 1988:1 | 416.7 | 1005.3 | 1492.4 | 1656.0 | 609.4 | 1046.6 |
| 2 | 422.3 | 1011.6 | 1652.5 | 1640.2 | 618.0 | 1022.2 |
| 3 | 445.1 | 1026.7 | 1650.0 | 1666.4 | 627.9 | 1038.5 |
| 4 | 460.3 | 1044.8 | 1810.8 | 1693.8 | 635.0 | 1058.8 |
| YEAR | 436.1 | 1022.1 | 1651.4 | 1664.1 | 622.6 | 1041.5 |
| % change from '87 | 7.0 | 6.0 | 6.5 | 8.3 | 9.0 | 7.8 |

## 1.13 REAL GNP

See Table 1.13
Page 9

LATEST REVISED FIGURES FOR 1986:4: NET EXPORTS BROUGHT DOWN TO 148 BIL.$ FROM 161.0. THIS IS A POSITIVE SIGN FOR THE NEGATIVE BALANCE OF TRADE. Other changes in the third revision from the second revision:

* Inventories decline. Non-farm inventories declined by $9.8 bil. This is a good sign. Inventories are very low which means that they will increase in the months ahead. This leads to more factory orders.

* Figures on Federal spending were further reduced.

1987
FORECAST
DATA

Percent Change from March 1987 Forecast

| | |
|---|---|
| + 1.33% | Federal Govt. Purch. |
| + .62% | Net Exports |
| - .03% | GNP |
| - .05% | Pers. Cons. Expend. |
| - .16% | State Local Purch. |
| - .55% | Gross Private Dom. Inv. |

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----------Gross National Product--------------- | | | | | -----* |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 2324.5 | 647.7 | -108.2 | 323.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3661.4 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3* | 3686.4 | 2448.0 | 651.3 | -163.3 | 330.9 | 419.5 |
| 4* | 3696.1 | 2445.8 | 629.0 | -148.0 | 348.6 | 420.7 |
| YEAR | 3674.9 | 2418.7 | 657.2 | -147.8 | 332.2 | 414.6 |
| % change from '85 | 2.5 | 4.1 | 1.5 | 36.6 | 2.7 | 4.3 |
| 1987:1 | 3724.0 | 2467.8 | 637.8 | -150.1 | 346.1 | 422.4 |
| 2 | 3755.0 | 2487.6 | 640.2 | -148.6 | 348.3 | 427.5 |
| 3 | 3786.2 | 2492.3 | 653.4 | -142.4 | 350.2 | 432.7 |
| 4 | 3824.5 | 2509.1 | 666.7 | -140.1 | 351.3 | 437.5 |
| YEAR | 3772.4 | 2488.6 | 649.5 | -145.3 | 349.0 | 430.0 |
| % change from '86 | 2.7 | 2.9 | -1.2 | -1.7 | 5.0 | 3.7 |
| 1988:1 | 3737.4 | 2430.0 | 667.2 | -136.4 | 352.6 | 442.2 |
| 2 | 3862.6 | 2525.2 | 670.1 | -132.7 | 355.1 | 444.9 |
| 3 | 3894.5 | 2549.1 | 672.1 | -129.9 | 355.8 | 447.4 |
| 4 | 4026.8 | 2667.6 | 676.8 | -128.3 | 358.1 | 452.6 |
| YEAR | 3880.3 | 2538.5 | 671.5 | -131.8 | 350.1 | 446.8 |
| % change from '87 | 2.9 | 2.0 | 3.4 | -9.3 | .3 | 3.9 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

CONSUMER INFLATION MEASURED BY CPI WILL REMAIN MODERATE. DO NOT EXPECT ANY SIGNIFICANT INCREASES OF PRICES OF IMPORTED CONSUMER GOODS.

* The rate of exchange for the dollar declined significantly only against West European currencies and Japan. Prices of goods imported from other countries need not rise.

* Exporters from countries where the dollar has declined are not increasing and will not increase their prices in the same proportion to the decline of the dollar. They are paying the price for preserving the U.S. markets.

* The same two reasons hold up for Producer Prices. Do not expect sharp increases in prices of imported commodities.

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | | |
|---|---|---|
| + | .17% | Pers. Cons. Expend. |
| + | .04% | GNP |
| + | .04% | Consumer Price Index |
| - | .04% | Federal Govt. Purch. |
| - | .04% | State Local Purch. |
| - | .21% | Producer Price Index |

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.2 | 293.7 | 111.5 | 111.5 | 109.4 | 116.0 |
| 1986:1* | 327.3 | 290.8 | 113.5 | 113.5 | 111.0 | 118.8 |
| 2* | 326.5 | 288.5 | 114.0 | 114.1 | 111.8 | 119.4 |
| 3* | 328.9 | 287.9 | 115.0 | 115.1 | 111.6 | 120.3 |
| 4* | 330.9 | 288.4 | 115.2 | 115.3 | 106.7 | 122.0 |
| YEAR | 328.4 | 288.9 | 114.4 | 114.2 | 110.3 | 120.1 |
| % change from '85 | 1.9 | -1.6 | 2.6 | 2.4 | .8 | 3.6 |
| 1987:1 | 333.2 | 291.9 | 116.4 | 115.9 | 112.8 | 122.3 |
| 2 | 335.6 | 296.5 | 117.3 | 116.4 | 114.0 | 124.4 |
| 3 | 337.7 | 301.8 | 118.2 | 117.8 | 115.2 | 125.5 |
| 4 | 340.4 | 305.7 | 119.5 | 119.4 | 117.0 | 127.6 |
| YEAR | 336.7 | 299.0 | 117.8 | 117.4 | 114.8 | 125.0 |
| % change from '86 | 2.5 | 3.5 | 3.0 | 2.8 | 4.1 | 4.0 |
| 1988:1 | 343.6 | 317.9 | 120.8 | 119.9 | 118.0 | 128.6 |
| 2 | 347.4 | 311.8 | 122.2 | 122.2 | 119.4 | 130.1 |
| 3 | 347.5 | 316.1 | 122.8 | 122.5 | 120.6 | 132.1 |
| 4 | 350.1 | 318.5 | 124.5 | 124.3 | 122.4 | 133.7 |
| YEAR | 347.1 | 316.1 | 122.6 | 122.2 | 120.1 | 131.1 |
| % change from '87 | 3.1 | 5.7 | 4.0 | 4.1 | 4.7 | 4.9 |

---

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

FINAL REVISION OF 1986:4 DATA FOR PERSONAL CONSUMPTION EXPENDITURES HAS BEEN SLIGHTLY INCREASED DUE TO UPWARD REVISION OF THE PERSONAL CONSUMPTION PRICE DEFLATOR.

* Figures for most other components of GNP have been reduced somewhat in line with the downward revision of price deflators

* The foreign trade gap has also been reduced a bit from the previously announced $113.6 bil. down to $110.2 bil. This is still high when compared to the first three quarters of 1986.

* Forecast of Net Exports for 1987 shows only a slight decline--by about $10 bil. Look for a more significant decline in 1988 by about $30 bil. This $30 bil. decline corresponds with the expected decline in Federal budget deficit.

* It is expected that in 1988 the NEED FOR FOREIGN FUNDS for financing the Federal deficit will be substantially lower.

1987
FORECAST
DATA

Percent Change from March 1987 Forecast

| | |
|---|---|
| + 1.34% | Federal Govt. Purch. |
| + .87% | Net Exports |
| + .05% | GNP |
| - .10% | Gross Private Dom. Inv. |
| - .16% | State Local Purch. |
| - .18% | Pers. Cons. Expend. |

### TABLE 1.22
### NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *------------Gross National Product----------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3* | 4240.7 | 2799.8 | 675.8 | -108.9 | 369.3 | 504.7 |
| 4* | 4258.7 | 2820.4 | 663.2 | -110.2 | 372.1 | 513.2 |
| YEAR | 4205.1 | 2761.4 | 683.6 | -104.3 | 366.2 | 497.9 |
| % change from '85 | 5.2 | 5.4 | 3.4 | 32.2 | 3.4 | 7.9 |
| 1987:1 | 4334.7 | 2861.1 | 678.0 | -111.4 | 390.4 | 516.6 |
| 2 | 4404.6 | 2896.5 | 686.1 | -106.9 | 397.1 | 531.8 |
| 3 | 4475.3 | 2937.1 | 695.0 | -103.3 | 403.4 | 543.0 |
| 4 | 4570.3 | 2995.7 | 702.1 | -96.8 | 411.0 | 558.2 |
| YEAR | 4446.2 | 2922.6 | 690.3 | -104.6 | 400.5 | 537.4 |
| % change from '86 | 5.7 | 5.8 | 1.0 | .3 | 9.4 | 7.9 |
| 1988:1 | 4514.8 | 2914.4 | 708.0 | -92.4 | 416.1 | 568.7 |
| 2 | 4720.1 | 3086.4 | 712.1 | -81.2 | 424.0 | 578.8 |
| 3 | 4782.4 | 3121.8 | 718.6 | -78.1 | 429.1 | 591.0 |
| 4 | 5013.4 | 3315.9 | 724.3 | -70.3 | 438.3 | 605.1 |
| YEAR | 4756.3 | 3109.3 | 715.8 | -80.5 | 426.9 | 585.9 |
| % change from '87 | 7.0 | 6.4 | 3.7 | -23.0 | 6.6 | 9.0 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | |
|---|---|
| + .19% | Non-Agri. |
| + .18% | Total Employed |
| + .10% | Civilian Labor Force |
| 0.00% | Agriculture |
| - .01% | Population |
| - 1.23% | Unemployment rate |

THE UMEMPLOYMENT RATE DROPPED ANOTHER .1% IN MARCH TO 6.6% FROM 6.7% IN FEBRUARY. LOOK FOR POSITIVE DEVELOPMENTS IN MONTHS AHEAD.

* 164,000 new jobs were created in March.

* Employment in the mining segment rose by 3,000. This signals the end of the slump in the oil extraction segment.

On the other side, a temporary decline in factory jobs and construction indicates that further declines in the unemployment rate will not be too great. Expect continuous weakness in motor vehicles and related segments.

* The March decline in construction is seen as temporary in light of the new legislation recently passed to pump billions of dollars into highway construction and repairs.

## TABLE 1.30
## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Nonagric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3* | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4* | 249.8 | 118.6 | 110.5 | 3.1 | 107.4 | 6.83 |
| YEAR | 246.9 | 117.9 | 110.0 | 3.2 | 106.9 | 6.99 |
| % change from '85 | 2.1 | 2.1 | 2.0 | -.8 | 2.9 | -3.09 |
| 1987:1 | 250.7 | 119.1 | 111.2 | 3.1 | 108.1 | 6.67 |
| 2 | 252.3 | 120.3 | 112.3 | 3.1 | 109.2 | 6.65 |
| 3 | 254.0 | 121.7 | 113.6 | 3.1 | 110.5 | 6.63 |
| 4 | 256.1 | 122.2 | 114.1 | 3.1 | 111.0 | 6.60 |
| YEAR | 253.3 | 120.8 | 112.8 | 3.1 | 109.7 | 6.64 |
| % change from '86 | 2.6 | 2.5 | 2.6 | -2.4 | 2.7 | -5.01 |
| 1988:1 | 257.5 | 122.6 | 114.5 | 3.1 | 111.4 | 6.58 |
| 2 | 259.6 | 123.6 | 115.5 | 3.0 | 112.5 | 6.57 |
| 3 | 261.4 | 124.8 | 116.7 | 3.0 | 113.7 | 6.53 |
| 4 | 263.5 | 125.9 | 117.7 | 3.0 | 114.7 | 6.50 |
| YEAR | 260.5 | 124.2 | 116.1 | 3.1 | 113.0 | 6.54 |
| % change from '87 | 2.9 | 2.8 | 2.9 | 0.0 | 3.0 | -1.39 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | |
|---|---|
| + 9.08% | 1-Family Unit price New |
| + 7.97% | Single Family Housing Starts |
| + 2.10% | Permits Issued |
| + 1.09% | 1-Family unit price Existing |
| - 3.09% | Multiple Family Housing Starts |
| - .66% | Mobile Home Shipments |

THE OUTLOOK FOR THE HOUSING INDUSTRY REMAINS BRIGHT THROUGH THE FIRST HALF OF THIS YEAR WITH A SLOWING DOWN TREND IN THE SECOND HALF.

* Strong single family starts in the first half of the year.

* Weak apartment starts in the second half.

* Expect a good spring selling season in the South and Northeast only. The Midwest and West will be below average.

The slowdown in the second half of the year in housing starts is indicated by sales data on new houses.

* In January, sales dropped by 8.6%. In February by another 2.7% compared to January and February 1986 figures.

* In January, there were 361,000 unsold new houses which equals 4-6 months supply.

* In February, there were 363,000 unsold new houses which equals 6-8 months supply.

This high oversupply will negatively affect starts in the summer and fall.

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home ship-ments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .284 | 1.735 | 101.0 | 90.6 |
| 1986:1* | 1.257 | .733 | .258 | 1.839 | 106.3 | 94.4 |
| 2* | 1.242 | .663 | .241 | 1.805 | 111.9 | 100.6 |
| 3* | 1.142 | .602 | .237 | 1.678 | 114.7 | 98.8 |
| 4* | 1.156 | .545 | .243 | 1.696 | 117.4 | 99.0 |
| YEAR | 1.199 | .636 | .245 | 1.754 | 112.6 | 98.2 |
| % change from '85 | 11.9 | -5.0 | -13.8 | 1.1 | 11.5 | 8.4 |
| 1987:1 | 1.296 | .533 | .258 | 1.755 | 120.0 | 99.5 |
| 2 | 1.221 | .581 | .276 | 1.776 | 121.9 | 101.8 |
| 3 | 1.186 | .606 | .267 | 1.657 | 123.6 | 102.6 |
| 4 | 1.108 | .567 | .260 | 1.604 | 125.8 | 105.3 |
| YEAR | 1.203 | .572 | .265 | 1.698 | 122.8 | 102.3 |
| % change from '86 | .3 | -10.1 | 8.4 | -3.2 | 9.1 | 4.2 |
| 1988:1 | 1.037 | .574 | .257 | 1.647 | 127.7 | 107.8 |
| 2 | 1.185 | .609 | .276 | 1.736 | 129.3 | 109.8 |
| 3 | 1.279 | .658 | .294 | 1.842 | 131.5 | 110.4 |
| 4 | 1.197 | .626 | .295 | 1.819 | 133.4 | 114.8 |
| YEAR | 1.175 | .617 | .280 | 1.761 | 130.5 | 110.7 |
| % change from '87 | -2.3 | 7.9 | 5.7 | 3.7 | 6.2 | 8.2 |

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*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

WEAK SPRING SELLING SEASON IS EXPECTED SINCE THE EFFECT OF INCENTIVES ANNOUNCED BY AUTOMAKERS IS REACHING THE POINT OF DIMINISHING RETURNS.

Recent data on sales confirm the trend for this year: domestically producers will built around 7.3 mil. compared to 8.1 mil. units in 1986. Imported cars will increase only slightly above 1986.

March data underline the trend in car sales for the year:

* March sales of domestic cars was 5% below the previous year. At ANNUAL RATES:

| | |
|---|---|
| Early March | 6.7 million |
| Mid March | 7.2 million |
| Late March | 7.5 million |

Compared to the 1986 total sales of 8.1 million, imported cars sold:

| | |
|---|---|
| January | 2.4 million |
| February | 2.6 million |
| March | 2.7 million |

Compared to 1986:1 figures of 2.8 million units, the strong markets remains for light trucks.

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | |
|---|---|
| + 2.40% | Domestic Car Sales |
| 0.00% | Shipments |
| 0.00% | Dealer Inventory |
| - .71% | Total Light Truck Sales |
| - .95% | Total Car Sales |
| - 5.65% | Imported Car Sales |

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.0 | 8.2 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.9 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.8 | 8.3 | 3.5 |
| 3* | 13.2 | 9.7 | 3.5 | 1.3 | 11.0 | 3.6 |
| 4 | 10.8 | 7.2 | 3.0 | 1.4 | 8.7 | 3.3 |
| YEAR | 11.3 | 8.1 | 3.1 | 1.4 | 8.9 | 3.5 |
| % change from '85 | 3.2 | -.9 | 9.8 | 7.7 | 6.3 | -6.8 |
| 1987:1 | 10.2 | 7.6 | 2.6 | 1.7 | 7.9 | 3.3 |
| 2 | 10.4 | 7.7 | 2.7 | 1.8 | 7.6 | 3.5 |
| 3 | 11.0 | 7.8 | 3.2 | 1.7 | 7.9 | 3.6 |
| 4 | 10.0 | 6.8 | 3.2 | 1.7 | 7.8 | 3.5 |
| YEAR | 10.4 | 7.5 | 2.9 | 1.7 | 7.8 | 3.5 |
| % change from '86 | -8.4 | -3.5 | -4.9 | 21.4 | -12.6 | .7 |
| 1988:1 | 10.3 | 7.0 | 3.3 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.5 | 8.2 | 3.3 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 7.9 | 3.3 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.7 | 3.2 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 5.3 | -5.8 | 11.1 | 0.0 | 1.3 | 2.9 |

---

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | |
|---|---|
| + 8.74% | Corp. Profit Tax Accrued |
| + .44% | State Local Corp. Tax Accrued |
| - .02% | State Income Tax |
| - .16% | Federal Income Tax |
| - .50% | Federal Surplus/ Deficit |
| - 5.60% | State Surplus/ Deficit |

THE FEDERAL DEFICIT CAN ONLY BE REDUCED BY CUTTING SPENDING AND NOT BY RAISING TAXES. THE PROPOSED $20 BILLION TAX HIKE WOULD NOT SOLVE ANYTHING AND WOULD INCREASE INFLATIONARY PRESSURES.

Present negotiations in Congress point to the Federal Budget Deficit for FY 1988 of around $130 billion, still above the Gramm-Rudman target of $108 bil. THE ONLY WAY TO GET DOWN TO THE GRAMM-RUDMAN TARGET IS TO MAKE BUDGET CUTS.

There is a close relationship between the Federal deficit and the U.S. deficit in foreign trade. The Federal deficit has to be financed to a significant extent by FOREIGN FUNDS. If not, then too much pressure would be put on domestic financial markets resulting in budget needs soaking up funds necessary to finance domestic capital forrmation. To let foreign capital flow into the U.S., the balance of trade HAS TO BE IN THE RED. Foreiners have large trade surplus capital invested in the U.S. The lower the Federal budget deficit, the smaller need to finance it from foreign funds and the lower need of keeping the balance of trade in the red.

Members of the House and Senate should remember this when pressuring for higher government spending.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

| | FEDERAL | | | STATE AND LOCAL | | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3* | 365.8 | 84.3 | -197.4 | 153.1 | 20.1 | 64.0 |
| 4* | 376.1 | 92.7 | -189.2 | 158.9 | 21.9 | 59.4 |
| YEAR | 361.3 | 80.8 | -206.6 | 152.7 | 19.4 | 63.1 |
| % change from '85 | 3.0 | 19.4 | 3.2 | 7.6 | 7.2 | 6.6 |
| 1987:1 | 388.6 | 95.1 | -180.1 | 159.4 | 22.0 | 60.1 |
| 2 | 395.0 | 98.2 | -176.9 | 162.7 | 22.3 | 65.3 |
| 3 | 398.7 | 101.1 | -171.4 | 166.8 | 22.6 | 68.7 |
| 4 | 401.9 | 102.3 | -170.1 | 168.2 | 23.5 | 70.6 |
| YEAR | 396.1 | 99.2 | -174.6 | 164.3 | 22.6 | 66.2 |
| % change from '86 | 9.6 | 22.7 | -15.5 | 7.6 | 16.5 | 4.9 |
| 1988:1 | 408.9 | 103.7 | -165.4 | 170.5 | 24.1 | 72.3 |
| 2 | 415.2 | 105.1 | -160.2 | 172.8 | 25.2 | 73.2 |
| 3 | 419.4 | 107.8 | -152.1 | 175.9 | 25.8 | 75.1 |
| 4 | 425.3 | 109.7 | -141.2 | 178.6 | 26.1 | 77.2 |
| YEAR | 417.2 | 106.6 | -154.7 | 174.4 | 25.3 | 74.5 |
| % change from '87 | 5.3 | 7.5 | -11.4 | 6.2 | 11.9 | 12.5 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | | |
|---|---|---|
| + | .82% | Corp. After Tax Profit |
| + | .04% | Average Weekly Earnings |
| - | .01% | Comp. of Employees |
| - | .40% | Personal Income |
| - | .45% | Personal Disp. Income |
| - | .84% | Personal Savings |

DATA ON PERSONAL INCOME, PERSONAL DISPOSABLE INCOME, AND COMPENSATION OF EMPLOYEES POINT TO REGULAR, NON-INFLATIONARY GROWTH THROUGHOUT THIS YEAR AND NEXT.

Forecast of corporate profits has been adjusted slightly upwards mainly due to the March 20 estimates of corporate profits releasted by the U. S. Department of Commerce. These estimates are higher than KEDI anticipated, and show the corporate sector of the economy in better shape than that based on preliminary and incomplete data. In particular, KEDI increased the 1987 and 1988 forecasts of after-tax profits for oil and oil-related industries, lumber and wood products, chemicals, textile, and pharmaceuticals industries, and reduced slightly after-tax profits for auto and related industries.

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3* | 3498.8 | 2979.9 | 2507.4 | 135.9 | 84.1 | 393.7 |
| 4* | 3527.9 | 2993.0 | 2540.7 | 144.2 | 74.2 | 397.9 |
| YEAR | 3490.1 | 2976.1 | 2499.1 | 138.3 | 114.2 | 394.2 |
| % change from '85 | 5.3 | 5.2 | 5.5 | 5.3 | -20.3 | 3.2 |
| 1987:1 | 3574.8 | 3026.8 | 2570.2 | 146.7 | 86.5 | 400.4 |
| 2 | 3652.6 | 3094.9 | 2613.8 | 149.5 | 94.3 | 402.1 |
| 3 | 3706.4 | 3140.9 | 2668.4 | 156.1 | 99.6 | 409.1 |
| 4 | 3771.5 | 3201.4 | 2726.7 | 161.1 | 108.3 | 411.4 |
| YEAR | 3676.3 | 3116.0 | 2644.8 | 153.3 | 97.2 | 405.7 |
| % change from '86 | 5.3 | 4.7 | 5.8 | 10.9 | -14.9 | 2.9 |
| 1988:1 | 3704.3 | 3124.9 | 2769.1 | 163.6 | 108.7 | 414.4 |
| 2 | 3896.4 | 3308.4 | 2802.0 | 167.1 | 112.1 | 417.3 |
| 3 | 3949.3 | 3354.0 | 2871.2 | 172.4 | 117.6 | 420.2 |
| 4 | 4159.1 | 3555.2 | 2910.3 | 175.9 | 123.1 | 423.7 |
| YEAR | 3927.3 | 3335.6 | 2838.2 | 169.8 | 115.4 | 418.9 |
| % change from '87 | 6.8 | 7.0 | 7.3 | 10.7 | 18.7 | 3.2 |

---

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | |
|---|---|
| + .48% | Currency & Demand Deposits |
| + .07% | Time Deposits |
| 0.00% | Large Denom. Time . Deposits |
| 0.00% | Mortg. at S & L Assns. |
| 0.00% | Comm. & Indust. Lonas at Banks |
| 0.00% | Consumer Install. Credit |

FORECAST DATA SHOW A SLOWING DOWN OF CONSUMER INSTALLMENT CREDIT, MORTGAGES, COMMERCIAL AND INDUSTRIAL LOANS, AND OTHER CREDIT AGGREGATES.

Forecast of monetary and credit aggregates show a slower but still rapid growth of money supply M1, with regular increments in M2.

Large increases of money supply, M1. will still be necessitated by needs of the stock market, and PRIMARILY, to finance the foreign trade deficit, as well as recycling the funds to finance the Federal budget deficit by foreign investors.

Calculations done by this Institute show that the rate of exchange of the dollar is close to equilibrium--further declines of the dollar with regard to West European currencies and the Japanese yen will discourage foreign investors to invest in U. S. securities, and in addition, will contribute to the increase of inflationary pressures.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 535.1 | 493.9 | 436.5 | 583.2 |
| 1986:1* | 633.9 | 2581.3 | 550.9 | 502.1 | 448.5 | 574.7 |
| 2* | 658.4 | 2646.3 | 567.7 | 508.0 | 447.5 | 565.1 |
| 3* | 685.6 | 2716.1 | 584.3 | 511.4 | 448.5 | 557.1 |
| 4* | 714.7 | 2775.5 | 594.9 | 517.1 | 446.3 | 553.6 |
| YEAR | 673.1 | 2679.8 | 594.9 | 517.1 | 446.3 | 553.6 |
| % change from '85 | 13.4 | 7.9 | 11.2 | 5.3 | 2.2 | -5.1 |
| 1987:1 | 738.5 | 2855.4 | 598.3 | 526.7 | 440.0 | 568.9 |
| 2 | 745.1 | 2911.3 | 608.1 | 534.0 | 438.5 | 573.0 |
| 3 | 754.8 | 2982.8 | 618.1 | 536.8 | 437.2 | 577.0 |
| 4 | 761.2 | 3036.5 | 630.2 | 545.3 | 435.9 | 581.6 |
| YEAR | 749.9 | 2946.5 | 630.2 | 545.3 | 435.9 | 581.6 |
| % change from '86 | 11.4 | 10.0 | 5.9 | 5.5 | -2.3 | 5.1 |
| 1988:1 | 772.6 | 3112.4 | 641.4 | 549.1 | 447.0 | 596.1 |
| 2 | 784.8 | 3167.5 | 652.5 | 553.0 | 449.0 | 605.4 |
| 3 | 794.6 | 6249.8 | 662.4 | 557.7 | 453.0 | 619.3 |
| 4 | 808.5 | 3325.6 | 678.1 | 564.9 | 456.3 | 630.2 |
| YEAR | 790.1 | 3963.8 | 678.1 | 564.9 | 456.3 | 630.2 |
| % change from '87 | 5.4 | 34.5 | 7.6 | 3.6 | 4.7 | 8.4 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Before revision.

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
March 1987
Forecast

| | |
|---|---|
| +11.43% | 20 yr. Govt. Bonds Yield |
| + 2.18% | Prime Rate |
| + 1.95% | Conv. Mortg. Rate |
| + .03% | Treas. Bills 3 mo. Yield |
| + .06% | Aaa Corp. Bond Rate |
| -21.46% | S & P's 500 Avg. |

KEDI DOES NOT ANTICIPATE MORE SIGNIFICANT DECLINES IN THE INTERNATIONAL VALUE OF THE DOLLAR WITH REGARD TO WEST EUROPE AND JAPAN.

* Recent increases in interest rates on long-term government bonds and prime rate by some banks are considered temporary.

* The forecast is for low interest rates throughout this year with some small increases in 1988.

* If the dollar were to fall further against West Europe and Japan, the necessary outcome would be to increase interest rates in order to keep foreign capital flowing into the U.S. economy. That would have disastrous effects on:

1. Domestic economy, mainly on the automobile and housing segments, and on the overall business investment in new plants and equipment.

2. Third World's debt position and growth of its economies.

It is anticipated that the Federal Reserve will not be forced to use this alternative. Recent declines in federal funds rate point in this direction.

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 20 yr. Govt. bonds yield<br>% | S & P's 1941-43 500 Avg<br>% |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3* | 5.52 | 7.85 | 9.82 | 8.81 | 7.38 | 241.15 |
| 4* | 5.35 | 7.50 | 9.43 | 8.68 | 7.44 | 243.69 |
| YEAR | 6.00 | 8.33 | 9.82 | 9.06 | 7.88 | 237.18 |
| % change from '85 | -19.7 | -11.6 | -11.7 | -20.0 | -27.6 | 26.9 |
| 1987:1 | 5.30 | 7.50 | 9.15 | 8.42 | 7.28 | 27.35 |
| 2 | 5.28 | 7.59 | 9.14 | 8.38 | 7.63 | 284.16 |
| 3 | 5.20 | 7.70 | 9.98 | 8.24 | 7.51 | 293.14 |
| 4 | 5.27 | 7.62 | 8.92 | 8.26 | 7.22 | 295.72 |
| YEAR | 5.26 | 7.60 | 9.30 | 8.32 | 7.41 | 225.09 |
| % change from '86 | -12.4 | -8.8 | -5.3 | -8.1 | -5.9 | -5.1 |
| 1988:1 | 5.35 | 7.60 | 8.81 | 8.32 | 7.34 | 298.06 |
| 2 | 5.47 | 7.59 | 8.83 | 8.35 | 7.39 | 302.47 |
| 3 | 5.49 | 7.72 | 8.89 | 8.24 | 7.50 | 301.21 |
| 4 | 5.58 | 7.84 | 8.94 | 8.29 | 7.71 | 298.43 |
| YEAR | 5.47 | 7.69 | 8.87 | 8.30 | 7.48 | 300,04 |
| % change from '87 | 4.0 | 1.1 | -4.6 | -.3 | 1.0 | 33.3 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the GNP in current dollars has been selected for comparison. Actual number has been calculated from the 1986:1--1986:3 data on 1986 GNP and the 1986:4 March 20, 1987 U. S. Department of Commerce estimate of GNP. The 1986:1--1986:3 data are in Survey of Current Business, Table 1.1 (U. S. Dept. of Commerce, Washington, D.C., monthly.) Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986.)

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
1986 GNP in current $ (in bil.$)
Actual figure: 4206.1

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy percent difference |
|---|---|---|---|
| First Interstate Economics, p. 42 | 11/18/85 | 4257.7* | +1.2 |
| American Statistical Assn., and National Bureau of Economic Research, p. 44 | 12/85 | 4143.0 | -1.5 |
| Ashland Ohio, p. 44 | 12/85 | 4135.6* | -1.7 |
| Manufacturers Hanover Trust, p. 45 | 12/85 | 4173.4 | - .8 |
| UCLA Business Forecasting Project | 12/85 | 4163.7 | -1.0 |
| The Equitable Life Assurance Society of the U.S., p. 48 | 12/4/85 | 4127.7 | -1.9 |
| The University of Michigan, RSQE, p.49 | 12/12/85 | 4110.5 | -2.3 |
| L.D.Reece, Cities Service Oil and Gas Corp. p. 53 | 1/86 | 4250.1 | +1.0 |
| Wharton Econometric Forecasting Associates, Inc., p. 54 | 1/86 | 4234.9 | + .7 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 4242.2 | + .9 |
| Standard & Poor's Corp., p. 58 | 1/16/86 | 4108.9 | -2.3 |
| Armco, Inc., p. 59 | 1/27/86 | 4228.5 | + .5 |
| John J. McAuley, Fordham Univ., p. 62 | 1/24/86 | 4241.0 | + .8 |
| Money Market Services, Inc. p. 64 | 1/27/86 | 4270.0 | +1.5 |
| Chase Econometrics, p. 65 | 1/29/86 | 4226.9 | + .5 |
| Georgia Sate Univ., p. 66 | 2/86 | 4247.6 | +1.0 |
| KEDI, Inc., p. 67 | 2/1/86 | 4269.4 | +1.5 |

*calculated from quarterly values

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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# KEDI ECONOMIC SURVEY

May 1, 1987

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SOURCES:

U.S.Department of Commerce first estimate of 1987:1, National Income and Product data, April 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, April 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Outlook for growth in goods producing industries remains mixed. Manufacturing is expected to improve a bit this year.

### Prices

Consumer prices, as measured by the CPI, are expected to grow within tolerable limits at 2.8% this year, and 3.4% in 1988.

### Employment & Labor

Major increases in jobs will take place in private service-producing industries. Look for further drop in unemployment.

### Housing

Further declines in single-family starts with more rapid declines in multi-family starts are predicted.

### Automobiles

Forecast data calls for 9% decline in car sales this year. Imported car sales will be 2.8 million, down from last year.

### Budgets

KEDI forecast data for 1987 and 1988 are optimistic with less red ink in foreign trade. This will keep interest rates low.

### Income

Problem areas still exist in oil exploration, oil field services, metal products, steel, tobacco, rails, oil and mining equipment.

### Money & Credit

KEDI anticipated that the Fed will stick with easy money and credit policy through this year and next year.

### Interest Rates, Yields & Securities Prices

No significant interest rate increases are expected to occur throughout this year and next year.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the May 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3585.2 | 4038.7 | 4135.6 | 4243.1 |
| product, p. 5 | % change | 2.5 | 3.0 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 123.8 | 138.2 | 142.6 | 147.5 |
| prod., p. 5 | % change | 1.0 | 3.3 | 3.2 | 3.4 |
| Capacity | % | 80.4 | 80.9 | 80.0 | 79.3 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.2 | 6.1 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | -1.2 | 1.1 | -.9 |
| Private housing | mil.units | 1.7 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | 4.9 | 3.8 | -2.4 | 3.5 |
| Car sales, | mil.units | 11.0 | 11.2 | 11.1 | 11.6 |
| p. 5 | % change | 3.2 | 2.6 | -.9 | 4.0 |
| Implicit GNP | 1982=100 | 111.5 | 126.5 | 131.1 | 136.3 |
| price def.,p.11 | % change | 2.6 | 3.3 | 3.6 | 4.0 |
| Consumer Price | 1967=100 | 322.2 | 360.9 | 372.5 | 385.9 |
| Index, p. 11 | % change | 1.9 | 3.4 | 3.2 | 3.6 |
| Prod.Price Index | 1967=100 | 293.7 | 329.1 | 343.9 | 355.6 |
| (fin.goods),p.11 | % change | -1.6 | 4.1 | 4.5 | 3.4 |
| Federal Deficit | bil. $ | -200.1 | -130.5 | -104.5 | -68.8 |
| p. 21 | % change | 15.1 | -15.8 | -19.9 | -34.2 |
| Personal Income | bil. $ | 3314.5 | 4251.2 | 4540.3 | 4880.8 |
| p. 23 | % change | 5.1 | 6.8 | 6.8 | 7.5 |
| Prime Rate | % | 9.4 | 9.0 | 9.8 | 10.7 |
| p. 27 | % change | -11.6 | 7.3 | 9.1 | 8.6 |
| Mortgage Rate | % | 11.1 | 9.6 | 9.4 | 9.5 |
| p. 27 | % change | -11.7 | 5.6 | -2.1 | 2.0 |
| Currency+demand | bil. $ | 593.6 | 852.6 | 910.5 | 969.7 |
| deposits , p. 25 | % change | 13.4 | 7.4 | 6.8 | 6.5 |
| Commercial+ind. | bil. $ | 493.9 | 590.3 | 607.4 | 620.1 |
| loans, p. 25 | % change | 5.3 | 3.3 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.6 | 90.8 | 91.3 |
| production | % change | -4.8 | .3 | .9 | .4 |
| Electric power | mil.kw-hr | 2576 | 3226 | 3342.1 | 3499.2 |
| production | % change | 6.5 | 3.9 | 3.6 | 4.7 |
| Bituminous coal | mil.sh.tons | 873 | 938 | 973.3 | 984.1 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2325 | 2371.7 | 2426.2 |
| output | % change | .9 | 1.9 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1377.7 | 1757.3 | 1864.5 | 1995.0 |
| p. 7 | % change | 6.2 | 6.4 | 6.1 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + .27% | GNP |
| 0.00% | Autos |
| - .03% | Capacity Util. |
| - .14% | Index Indus. Prod. |
| - 2.48% | Unemployment |
| - 2.89% | Private Housing Starts |

In the services producing segment the fastest growth is predicted for retail trade, transportation services. mainly local transportation, and other services that include business services, hotels, restaurants, fast food, amusement and recreational services, health, education, and legal services.

In finance, insurance and real estate the brightest outlook is in nonbank finance, specifically credit agencies other than banks, brokers and dealers, brokers and dealers, and investment offices.

Outlook for growth in goods producing industries remains mixed. Manufacturing in general is expected to improve a bit this year, and more significant increases are predicted to take place in the following year.

Significant differences in growth rates of industries within this segment will persist, however. KEDI forecast calls for a good performance in most of nondurable manufacturing specifically food and kindred products, paper and allied products, plastic materials, organic chemicals, and pharmaceuticals.

Flat and possible declines in tire, footwear, apparel, textile, and tobacco products. In durable manufacturing, the outlook for most industries shows small improvements only.

Industries that are expected to grow strongly are aircraft and space vehicles, ordnance and accessories, electrical equipment, household appliances, and miscellaneous manufacturing, especially jewelry, musical instruments, toys and office supplies.

### TABLE 1.11
### SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem- ployment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.0 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3661.4 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3* | 3686.4 | 125.0 | 6.90 | 79.7 | 1.744 | 13.2 |
| 4* | 3696.1 | 125.9 | 6.83 | 79.6 | 1.672 | 10.8 |
| YEAR | 3674.9 | 125.1 | 6.99 | 79.6 | 1.828 | 11.3 |
| % change from '85 | 2.5 | 1.0 | -3.1 | -1.0 | 4.9 | 3.2 |
| 1987:1 | 3735.2 | 126.8 | 6.67 | 79.6 | 1.823 | 10.2 |
| 2 | 3763.8 | 127.4 | 6.50 | 79.5 | 1.774 | 10.4 |
| 3 | 3797.1 | 128.5 | 6.41 | 79.9 | 1.751 | 11.0 |
| 4 | 3834.2 | 131.4 | 6.32 | 80.1 | 1.644 | 10.0 |
| YEAR | 3782.6 | 128.5 | 6.47 | 79.8 | 1.748 | 10.4 |
| % change from '86 | 2.9 | 2.8 | -7.3 | .2 | -4.4 | -8.4 |
| 1988:1 | 3850.3 | 131.9 | 6.28 | 80.2 | 1.571 | 10.3 |
| 2 | 3875.8 | 133.1 | 6.27 | 80.4 | 1.806 | 10.8 |
| 3 | 3911.8 | 134.3 | 6.15 | 80.8 | 1.937 | 11.5 |
| 4 | 4046.2 | 135.8 | 6.02 | 81.7 | 1.872 | 11.2 |
| YEAR | 3921.0 | 133.8 | 6.18 | 80.8 | 1.796 | 10.9 |
| % change from '87 | 3.7 | 4.1 | -4.6 | 1.3 | 2.8 | 5.3 |

---

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

IN 1987, CONSUMER SPENDING WILL NOT BE THE DRIVING FORCE THAT IT WAS IN 1986. HOWEVER, IT WILL REMAIN AT GOOD LEVELS THROUGHOUT THE YEAR AND WILL ACCELERATE SIGNIFICANTLY IN 1988.

The 1987 forecast data for consumer spending are optimestic for the services and nondurables segments, and weak for durables due to expected declines in auto sales.

Recent data underline this trend. March retail sales remained at approximately the same level as February and by 6.2% above the March 1986 sales. KEDI forecast data for April, May and June follows:

Retail Sales Percent Changes from
Preceeding Month:

| | March | April | May |
|---|---|---|---|
| Gen. Mdse. | - 1.1 | + 1.4 | + 1.8 |
| Bldg. Mat°l. | - 2.0 | + .3 | + .9 |
| Furniture & Home furnish. | - .3 | - .1 | + .4 |
| Auto sales | + 1.0 | - .3 | - .7 |
| Apparel & accessories | + .4 | + .8 | + 1.1 |
| Gasoline stns. | + 1.3 | + 1.9 | + 2.9 |

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + 1.40% | Pers. Con. Exp. Services |
| + .83% | Pers. Con. Exp. Nondurable |
| 0.00% | Retail Sales Durable |
| - .26% | Retail Sales Total |
| - .41% | Retail Sales Nondurable |
| - 1.80% | Pers. Con. Exp. Durable |

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-* | | | *------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. 1985* | 359.3 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3* | 414.5 | 932.8 | 1452.4 | 1470.2 | 559.4 | 910.8 |
| 4* | 403.1 | 940.[illegible] | 1477.2 | 1516.9 | 560.3 | 935.5 |
| YEAR | 388.1 | 932.8 | 1443.3 | 1460.9 | 544.5 | 911.0 |
| % change from '85 | 8.0 | 3.1 | 8.0 | 6.0 | 6.4 | 5.2 |
| 1987:1 | 385.4 | 962.8 | 1506.1 | 1504.8 | 554.9 | 949.9 |
| 2 | 396.3 | 966.5 | 1549.5 | 1514.6 | 560.8 | 953.8 |
| 3 | 408.3 | 976.8 | 1581.2 | 1531.1 | 579.1 | 952.0 |
| 4 | 410.6 | 983.5 | 1629.4 | 1582.4 | 590.0 | 992.4 |
| YEAR | 400.1 | 972.4 | 1566.6 | 1533.2 | 571.2 | 962.0 |
| % change from '86 | 3.1 | 4.3 | 8.5 | 5.0 | 4.9 | 5.6 |
| 1988:1 | 410.5 | 998.3 | 1648.7 | 1626.0 | 609.4 | 1016.6 |
| 2 | 414.4 | 1016.7 | 1684.8 | 1640.4 | 618.1 | 1022.3 |
| 3 | 428.6 | 1026.6 | 1695.4 | 1656.1 | 627.9 | 1028.2 |
| 4 | 451.4 | 1039.8 | 1855.8 | 1683.9 | 635.4 | 1048.5 |
| YEAR | 426.2 | 1020.3 | 1721.2 | 1651.6 | 622.7 | 1028.9 |
| % change from '87 | 6.5 | 4.9 | 9.9 | 7.7 | 9.0 | 7.0 |

## 1.13 REAL GNP

See Table 1.13
Page 9

The first estimate of the growth of the U.S. economy in 1987:1 shows that the U.S. economy grew at 4.3% rate, compared to the 1.1% growth in 1986:4. Though such a big increase has been due mainly to the increase in inventories (especially unsold cars), it indicates that the economy has retained its strength.

There are no indications of a slowdown. The 1987:1 data indicate a good start of the year, and many signals point to positive developments in coming quarters:

- Index of leading indicators rose by .4% in March, the fifth consecutive increase in six months.
- Trade imbalance is starting to ease.
- U.S. business productivity rose 1.8% rate in the first quarter and April data indicate it will continue improving.
- The first quarter 1987 farmers profit rose by 11% compared to 1986:1, and their indebtedness declined significantly.
- The first quarter 1987 earnings gain of U.S. corporations was the best since 1984.
- March orders for durables increased significantly from February.

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| +20.80% | Federal Govt. Purch. |
| + 1.37% | Gross Private Dom. Inv. |
| + .27% | GNP |
| - .20% | State Local Purch. |
| - 3.50% | Pers. Cons. Expend. |
| -11.85% | Net Exports |

## TABLE 1.13
## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 2324.5 | 647.7 | -108.2 | 323.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3661.4 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3* | 3686.4 | 2448.0 | 651.3 | -163.3 | 330.9 | 419.5 |
| 4* | 3696.1 | 2445.8 | 629.0 | -148.0 | 348.6 | 420.7 |
| YEAR | 3674.9 | 2418.7 | 657.2 | -147.8 | 332.2 | 414.6 |
| % change from '85 | 2.5 | 4.1 | 1.5 | 36.6 | 2.7 | 4.3 |
| 1987:1 | 3735.2 | 2443.1 | 669.4 | -134.2 | 332.3 | 424.6 |
| 2 | 3763.8 | 2479.4 | 651.2 | -132.5 | 338.6 | 427.1 |
| 3 | 3797.1 | 2498.5 | 650.6 | -124.6 | 341.2 | 431.4 |
| 4 | 3834.2 | 2515.0 | 662.4 | -121.0 | 344.3 | 433.5 |
| YEAR | 3782.6 | 2484.0 | 658.4 | -128.1 | 339.1 | 429.1 |
| % change from '86 | 2.9 | 2.7 | .2 | -13.3 | 2.1 | 3.5 |
| 1988:1 | 3850.3 | 2430.0 | 667.4 | -120.3 | 348.6 | 440.2 |
| 2 | 3875.8 | 2524.5 | 670.8 | -112.8 | 350.1 | 443.2 |
| 3 | 3911.8 | 2550.5 | 671.6 | -108.6 | 352.9 | 445.4 |
| 4 | 4046.2 | 2694.9 | 676.6 | -129.5 | 354.1 | 450.1 |
| YEAR | 3921.0 | 2572.4 | 671.6 | -117.8 | 350.1 | 41.7 |
| % change from '87 | 3.7 | 3.6 | 2.0 | -8.0 | 3.2 | 3.6 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + .77% | Pers. Cons. Expend. |
| + .42% | Consumer Price Index |
| + .02% | State Local Purch. |
| + .01% | Producer Price Index |
| - .04% | GNP |
| - 1.37% | Federal Govt. Purch. |

CONSUMER PRICES, AS MEASURED BY THE CPI, ARE EXPECTED TO GROW WITHIN TOLERABLE LIMITS AT 2.8% THIS YEAR, AND 3.4% IN 1988.

MODERATE BUSINESS INFLATION for the balance of this year and 1988 is predicted.

Recent rises in spot prices of RAW MATERIALS are not likely to continue.

* Worldwide gluts of supplies of raw materials still remain.

* Prices of RAW MATERIALS have increased from abnormally low levels in the spring of last year. Now, they are near the 1985 levels, far from their 1984 peaks.

* Prices for foodstuffs are likely to remain low because of permanent worldwide surpluses of agricultural products.

* Energy prices are expected to move up moderately.

With so much over-capacity--and productivity holding its° own--there is not much evidence that business inflation can rise significant

## TABLE 1.21
## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.2 | 293.7 | 111.5 | 111.5 | 109.4 | 116.0 |
| 1986:1* | 327.3 | 290.8 | 113.5 | 113.5 | 111.0 | 118.8 |
| 2* | 326.5 | 288.5 | 114.0 | 114.1 | 111.8 | 119.4 |
| 3* | 328.9 | 287.9 | 115.0 | 115.1 | 111.6 | 120.3 |
| 4* | 330.9 | 288.4 | 115.2 | 115.3 | 106.7 | 122.0 |
| YEAR | 328.4 | 288.9 | 114.4 | 114.2 | 110.3 | 120.1 |
| % change from '85 | 1.9 | -1.6 | 2.6 | 2.4 | .8 | 3.6 |
| 1987:1 | 333.9 | 291.9 | 116.2 | 116.8 | 111.1 | 123.2 |
| 2 | 336.9 | 296.7 | 117.2 | 117.5 | 112.6 | 124.3 |
| 3 | 339.1 | 301.8 | 118.2 | 118.7 | 113.8 | 125.4 |
| 4 | 342.5 | 305.7 | 119.4 | 120.2 | 115.4 | 127.2 |
| YEAR | 338.1 | 299.0 | 117.8 | 118.3 | 113.2 | 125.0 |
| % change from '86 | 3.0 | 3.5 | 2.9 | 3.6 | 2.7 | 4.1 |
| 1988:1 | 345.7 | 317.9 | 120.7 | 125.8 | 117.1 | 128.3 |
| 2 | 348.8 | 311.8 | 122.2 | 123.4 | 118.4 | 129.6 |
| 3 | 349.5 | 316.2 | 122.7 | 123.5 | 119.6 | 131.8 |
| 4 | 352.2 | 318.5 | 124.3 | 124.2 | 121.4 | 133.0 |
| YEAR | 349.1 | 316.1 | 122.5 | 124.2 | 119.1 | 130.7 |
| % change from '87 | 3.2 | 5.7 | 4.0 | 5.0 | 5.2 | 4.5 |

---

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + 1.24% | Gross Private Dom. Inv. |
| + .76% | Pers. Cons. Expend. |
| + .18% | GNP |
| - .16% | State Local Purch. |
| - .19% | Net Exports |
| - 4.12% | Federal Govt. Purch. |

First estimates of the 1987:1 and components recently released by the Department of Commerce correspond to the trends in the economy forecasted here for this year:

* Smaller increases in consumer spending compared to their robust growth in 1986.

* Weak auto sales compared to 1986.

* Improvements in the U.S. balance of trade.

* Low levels of business capital outlays.

The 1987:1 GNP data do not signal any decline in coming months and do not point to a recession. They indicate moderate growth throughout the year.

### TABLE 1.22
### NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3* | 4240.7 | 2799.8 | 675.8 | -108.9 | 369.3 | 504.7 |
| 4* | 4258.7 | 2820.4 | 663.2 | -110.2 | 372.1 | 513.2 |
| YEAR | 4205.1 | 2761.4 | 683.6 | -104.3 | 366.2 | 497.9 |
| % change from '85 | 5.2 | 5.4 | 3.4 | 32.2 | 3.4 | 7.9 |
| 1987:1 | 4339.2 | 2854.3 | 704.8 | -112.0 | 369.2 | 522.9 |
| 2 | 4411.2 | 2912.3 | 693.1 | -106.4 | 381.3 | 530.9 |
| 3 | 4488.2 | 2966.3 | 695.6 | -103.0 | 388.3 | 541.0 |
| 4 | 4578.0 | 3023.5 | 702.0 | -96.2 | 397.3 | 551.4 |
| YEAR | 4454.1 | 2939.1 | 698.9 | -104.4 | 384.0 | 536.5 |
| % change from '86 | 5.9 | 6.4 | 2.2 | .1 | 4.9 | 7.8 |
| 1988:1 | 4647.3 | 3057.5 | 707.5 | -90.7 | 408.2 | 564.8 |
| 2 | 4736.2 | 3115.9 | 712.0 | -80.6 | 414.5 | 574.4 |
| 3 | 4799.8 | 3150.6 | 718.1 | -78.0 | 422.1 | 587.0 |
| 4 | 5029.4 | 3347.0 | 724.0 | -70.1 | 429.9 | 598.6 |
| YEAR | 4802.3 | 3196.1 | 715.4 | -79.8 | 418.7 | 581.2 |
| % change from '87 | 7.8 | 8.7 | 2.4 | -23.5 | 9.0 | 8.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

FORECAST DATA CALL FOR CONTINUING DROPS IN UNEMPLOYMENT RATE FOR THE REST OF 1987 AND 1988. MAJOR INCREASES IN JOBS WILL TAKE PLACE IN PRIVATE SERVICE-PRODUCING INDUSTRIES.

Expect a 5% increase this year, and another 5% rise in 1988.

EMPLOYMENT IN 1987-1988
(Mil., non-agri. payrolls, yearly avg.)

| | 1986 | 1987 | 1988 |
|---|---|---|---|
| Goods Producing Industries | 24.9 | 25.1 | 25.4 |
| Mining | .8 | .8 | .8 |
| Construction | 4.9 | 5.1 | 5.2 |
| Manufacturing | 19.2 | 19.2 | 19.4 |
| Service Producing Industries | 58.5 | 61.4 | 64.4 |
| Transportation & Public Util. | 5.3 | 5.9 | 6.2 |
| Retail Trade | 18.0 | 19.0 | 19.6 |
| Finance, insur. & real estate | 6.3 | 6.7 | 7.0 |
| Other services | 23.0 | 24.3 | 25.8 |
| Government | 16.8 | 17.2 | 17.9 |

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + .25% | Non-Agri. |
| + .24% | Total Employed |
| + .08% | Civilian Labor Force |
| 0.00% | Agriculture |
| - .01% | Population |
| - 2.48% | Unemployment rate |

### TABLE 1.30
### EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non-agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3* | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4* | 249.8 | 118.6 | 110.5 | 3.1 | 107.4 | 6.83 |
| YEAR | 246.9 | 117.9 | 110.2 | 3.2 | 107.0 | 6.99 |
| % change from '85 | 2.1 | 2.1 | 2.0 | -.8 | 3.0 | -3.09 |
| 1987:1 | 250.7 | 119.2 | 111.2 | 3.1 | 108.1 | 6.67 |
| 2 | 252.3 | 120.3 | 112.5 | 3.1 | 109.4 | 6.50 |
| 3 | 254.0 | 121.8 | 114.0 | 3.1 | 110.9 | 6.41 |
| 4 | 256.1 | 122.3 | 114.6 | 3.1 | 111.5 | 6.32 |
| YEAR | 253.3 | 120.9 | 113.1 | 3.1 | 110.0 | 6.47 |
| % change from '86 | 2.6 | 2.6 | 2.8 | -2.4 | 2.7 | -7.33 |
| 1988:1 | 257.5 | 122.6 | 114.9 | 3.1 | 111.8 | 6.28 |
| 2 | 259.6 | 123.6 | 115.9 | 3.0 | 112.9 | 6.27 |
| 3 | 261.4 | 124.8 | 117.1 | 3.0 | 114.1 | 6.15 |
| 4 | 263.5 | 125.9 | 118.3 | 3.0 | 115.3 | 6.02 |
| YEAR | 260.5 | 124.2 | 116.5 | 3.1 | 113.4 | 6.18 |
| % change from '87 | 2.9 | 2.8 | 2.9 | 0.0 | 3.2 | -4.56 |

---

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + .54% | 1-Family unit price Existing |
| - .56% | Permits Issued |
| - .47% | 1- Family Unit price New |
| - 1.31% | Multiple Family Housing Starts |
| - 1.62% | Single Family Housing Starts |
| - 3.87% | Mobile Home Shipments |

CONSECUTIVE DECLINES IN HOUSING STARTS FOR THE REST OF THIS YEAR ARE PREDICTED WITH SMALL DECLINES IN SINGLE-FAMILY STARTS, AND MORE RAPID DECLINES IN MULTI-FAMILY STARTS.

Data for March indicate the expected trend:

Housing Starts
(mil. units)

| | Total | 1-Family | Multi-fam. | Permits |
|---|---|---|---|---|
| Feb '87 | 1833 | 1299 | 534 | 1763 |
| Mar '87 | 1774 | 1245 | 529 | 1757 |

Sales of new homes slumped 3.6% in March, which is 11.8% below March 1986.

Expect further declines in April and consecutive months. There is still bad news ahead because the April data will not yet reflect the impact of increases in mortgage rates that has happened since late March.

The stage is set for a sharp decline in May. KEDI does not expect that mortgage rates will resume their downward trends soon.

Major declines are expected no earlier than in 1988.

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts mil. | Multi-family housing starts mil. | Mobile home shipments mil. | Permits authorized mil. | 1-Fam. unit price new** tho. $ | 1-Fam. unit price exist** tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .284 | 1.735 | 101.0 | 90.6 |
| 1986:1* | 1.257 | .733 | .258 | 1.839 | 106.3 | 94.4 |
| 2* | 1.242 | .663 | .241 | 1.805 | 111.9 | 100.6 |
| 3* | 1.142 | .602 | .237 | 1.678 | 114.7 | 98.8 |
| 4* | 1.156 | .545 | .243 | 1.696 | 117.4 | 99.0 |
| YEAR | 1.199 | .636 | .245 | 1.754 | 112.6 | 98.2 |
| % change from '85 | 11.9 | -5.0 | -13.8 | 1.1 | 11.5 | 8.4 |
| 1987:1 | 1.292 | .531 | .258 | 1.764 | 120.0 | 99.7 |
| 2 | 1.202 | .572 | .261 | 1.750 | 121.2 | 102.1 |
| 3 | 1.150 | .601 | .254 | 1.646 | 123.1 | 103.9 |
| 4 | 1.090 | .554 | .246 | 1.594 | 124.6 | 105.7 |
| YEAR | 1.183 | .565 | .255 | 1.688 | 122.2 | 102.8 |
| % change from '86 | -1.3 | -11.2 | 4.1 | -3.8 | 8.6 | 4.7 |
| 1988:1 | 1.007 | .564 | .250 | 1.587 | 127.8 | 108.4 |
| 2 | 1.205 | .601 | .269 | 1.706 | 130.3 | 110.8 |
| 3 | 1.289 | .648 | .289 | 1.824 | 132.6 | 112.6 |
| 4 | 1.257 | .615 | .295 | 1.810 | 136.5 | 115.7 |
| YEAR | 1.190 | .607 | .276 | 1.732 | 131.8 | 111.9 |
| % change from '87 | .5 | 7.5 | 8.2 | 2.6 | 7.8 | 8.8 |

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*Historical data.

**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + 5.88% | Dealer Inventory |
| + 3.77% | Domestic Car Sales |
| + .71% | Total Light Truck Sales |
| 0.00% | Total Car Sales |
| - .32% | Shipments |
| - 2.59% | Imported Car Sales |

Compared to the April KEDI forecast, data in this forecast have been slightly lowered for sales of domestic and foreign cars, domestic production, and increased a bit for inventories of unsold cars at dealers.

The forecast calls for 9% decline in sales this year compared to 1986. Significant decreases in sales of imported cars will result in 2.8 million units sold compared to 3.1 million last year.

The market for light-duty trucks is expected to remain strong throughout the year.

Improvements in factories° output,

and domestically produced cars are forecasted for 1988. However, 1988 will still remain below the 1986 levels. (See Table 1.42 on the following page.)

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TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.0 | 8.2 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.9 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.8 | 8.3 | 3.5 |
| 3* | 13.2 | 9.7 | 3.5 | 1.3 | 11.0 | 3.6 |
| 4 | 10.8 | 7.2 | 3.0 | 1.4 | 8.7 | 3.3 |
| YEAR | 11.3 | 8.1 | 3.1 | 1.4 | 8.9 | 3.5 |
| % change from '85 | 3.2 | -.9 | 9.8 | 7.7 | 6.3 | -6.8 |
| 1987:1 | 10.2 | 7.6 | 2.6 | 1.9 | 7.8 | 3.3 |
| 2 | 10.4 | 7.7 | 2.7 | 1.8 | 7.7 | 3.4 |
| 3 | 11.0 | 8.0 | 3.0 | 1.8 | 7.9 | 3.6 |
| 4 | 10.0 | 7.0 | 3.0 | 1.8 | 7.7 | 3.8 |
| YEAR | 10.4 | 7.6 | 2.8 | 1.8 | 7.8 | 3.5 |
| % change from '86 | -8.4 | -.2 | -8.1 | 28.6 | -12.9 | 2.2 |
| 1988:1 | 10.3 | 7.1 | 3.2 | 1.9 | 7.6 | 3.3 |
| 2 | 10.8 | 7.7 | 3.1 | 1.8 | 7.9 | 3.5 |
| 3 | 11.5 | 8.4 | 3.1 | 1.7 | 8.1 | 3.7 |
| 4 | 11.2 | 8.1 | 3.1 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.9 | 7.8 | 3.1 | 1.7 | 7.9 | 3.6 |
| % change from '87 | 5.3 | -5.3 | 10.6 | -5.6 | 1.6 | 1.4 |

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*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + .32% | Federal Surplus/ Deficit |
| + .22% | State Local Corp. Tax Accrued |
| + .03% | Corp. Profit Tax Accrued |
| 0.00% | State Income Tax |
| - .72% | State Surplus/ Deficit |
| - 2.30% | Federal Income Tax |

FEDERAL BUDGET DEFICITS ARE THE KEY VARIABLE FOR IMPROVING THE U.S. BALANCE OF TRADE, STABILIZING THE RATE OF EXCHANGE OF THE DOLLAR, AND LOWERING OF INTEREST RATES.

Since 1982, federal budget deficits have been closely related with foreign trade deficits.

Needs of Funds & Foreign Sources of Financing. (bil. $)

| | FD (1) | GPDI (2) | NFI (3) |
|---|---|---|---|
| 1982 | 145.9 | 447.3 | 1.0 |
| 1983 | 179.4 | 501.9 | 32.7 |
| 1984 | 172.9 | 674.0 | 91.0 |
| 1985 | 199.3 | 669.3 | 115.3 |
| 1986 | 206.6 | 683.6 | 116.5 |
| 1987 | 174.5 | 698.9 | 95.1 |
| 1988 | 154.4 | 715.4 | 68.4 |

The first two columns represent the needs of U.S. economy for financing. The third column is the need for foreign financing, i.e., inflows of foreign capital into the U.S. economy. Columns 1 and 3 are related--the wider the Federal Deficit, the higher the inflow of foreign capital. This results in a higher trade deficit. KEDI forecast data for 1987 and 1988 are optimistic with less Federal Deficits and less red ink in foreign trade. That results in less upward pressure on U.S. interest rates. Members of the Senate and House are in a spending mood and should keep that relationship in mind. they continue with spending proposals, the situation will become worse.

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

|  | *-----FEDERAL----------* |  |  | *---STATE AND LOCAL----* |  |  |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. |  |  |  |  |  |  |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3* | 365.8 | 84.3 | -197.4 | 153.1 | 20.1 | 64.0 |
| 4* | 376.1 | 92.7 | -189.2 | 158.9 | 21.9 | 59.4 |
| YEAR | 361.3 | 80.8 | -206.6 | 152.7 | 19.4 | 63.1 |
| % change from '85 | 3.0 | 19.4 | 3.2 | 7.6 | 7.2 | 6.6 |
| 1987:1 | 365.2 | 95.3 | -181.2 | 158.1 | 22.0 | 60.0 |
| 2 | 390.7 | 98.4 | -177.4 | 162.8 | 22.3 | 64.6 |
| 3 | 394.6 | 100.7 | -171.8 | 167.1 | 22.7 | 68.1 |
| 4 | 397.5 | 102.5 | -170.2 | 169.2 | 23.6 | 70.2 |
| YEAR | 387.0 | 99.2 | -175.2 | 164.3 | 22.6 | 65.7 |
| % change from '86 | 7.1 | 22.7 | -15.2 | 7.6 | 16.8 | 4.2 |
| 1988:1 | 404.8 | 103.1 | -166.3 | 171.5 | 24.2 | 72.0 |
| 2 | 411.6 | 104.7 | -161.4 | 173.8 | 25.8 | 72.7 |
| 3 | 418.5 | 108.9 | -152.0 | 175.8 | 26.4 | 74.7 |
| 4 | 422.4 | 111.8 | -140.1 | 178.9 | 27.2 | 75.3 |
| YEAR | 414.3 | 107.1 | -154.9 | 175.0 | 25.9 | 73.7 |
| % change from '87 | 7.1 | 8.0 | -11.5 | 6.5 | 14.3 | 12.1 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + 9.54% | Personal Savings |
| + .70% | Personal Disp. Income |
| + .35% | Personal Income |
| + .33% | Corp. After Tax Profit |
| + .09% | Average Weekly Earnings |
| - .21% | Comp. of Employees |

PROFIT OUTLOOK BY INDUSTRIES.

STRONG GAINS PREDICTED FOR:

Aerospace, apparel, chemicals, drugs preparation, food products, forest products, health care, instruments, insurance, nonferrous metals, railroads, non-tire rubber products, local transportation, paper and products.

AVERAGE INCREASES FOR:

Airlines, banks, building materials, utilities, printing and publishing, securities dealers, telephone, textile, thrift institutions, appliances, and computing machines.

LESS THAN AVERAGE:

Non-electrical machinery, ferrous metals, tires, office equipment, heavy construction, oil extraction, autos and equipment.

PROBLEM AREAS:

Oil exploration, oil field services, metal products, steel, tobacco, railroads, oil field and mining equipment.

## TABLE 1.60
## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3* | 3498.8 | 2979.9 | 2507.4 | 135.9 | 84.1 | 393.7 |
| 4* | 3527.9 | 2993.0 | 2540.7 | 144.2 | 74.2 | 397.9 |
| YEAR | 3490.1 | 2976.1 | 2499.1 | 138.3 | 114.2 | 394.2 |
| % change from '85 | 5.3 | 5.2 | 5.5 | 5.3 | -20.3 | 3.2 |
| 1987:1 | 3585.3 | 3062.0 | 2565.3 | 146.6 | 109.2 | 401.1 |
| 2 | 3670.4 | 3116.9 | 2610.2 | 149.9 | 100.3 | 403.2 |
| 3 | 3740.4 | 3178.7 | 2661.3 | 156.8 | 107.5 | 409.0 |
| 4 | 3804.8 | 3238.1 | 2719.7 | 161.9 | 108.9 | 411.0 |
| YEAR | 3700.2 | 3148.9 | 2639.1 | 153.8 | 106.5 | 406.1 |
| % change from '86 | 6.0 | 5.8 | 5.6 | 11.2 | -6.8 | 3.0 |
| 1988:1 | 3845.9 | 3269.6 | 2760.1 | 164.5 | 104.7 | 413.8 |
| 2 | 3921.8 | 3336.4 | 2791.4 | 168.3 | 112.3 | 416.8 |
| 3 | 3972.3 | 3378.0 | 2851.0 | 174.2 | 117.8 | 419.4 |
| 4 | 4182.2 | 3580.9 | 2890.6 | 177.3 | 123.1 | 432.0 |
| YEAR | 3980.6 | 3391.2 | 2823.3 | 171.1 | 114.5 | 420.5 |
| % change from '87 | 7.6 | 7.7 | 7.0 | 11.2 | 7.5 | 3.6 |

---

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| + .59% | Consumer Install. Credit |
| - .03% | Currency & Demand Deposits |
| - .07% | Large Denom. Time Deposits |
| - .43% | Mortg. At S & L Assns. |
| - 2.35% | Consumer Install. Credit |
| -22.98% | Time Deposits |

KEDI ANTICIPATES THAT THE FEDERAL RESERVE MONETARY AND CREDIT POLICIES WILL STICK WITH THE EASY MONEY AND EASY CREDIT POLICY IN BOTH FORECAST YEARS.

There is no boom in the economy in that will force the Fed to tighten the monetary and credit conditions in any appreciable way.

Expect moderate growth in most monetary and credit aggregates--money supply M2, consumer installment credit, and mortgage credit, for the rest of this year.

Faster growth is predicted in the second half of 1987 for commercial and industrial loans: 7-8% compared to 2% in the first half.

Continuous fast increases are predicted for M1 money supply.

Forecast for 1988 calls for a slowdown in the growth of money supply M1, regular growth for M2, and resumption of increases in consumer installment credit.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDI-CATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 522.8 | 493.9 | 436.5 | 583.2 |
| 1986:1* | 633.9 | 2581.3 | 550.3 | 502.1 | 448.5 | 574.7 |
| 2* | 658.4 | 2646.3 | 551.8 | 508.0 | 447.5 | 565.1 |
| 3* | 685.6 | 2716.1 | 571.3 | 511.4 | 448.5 | 557.1 |
| 4* | 714.7 | 2775.5 | 577.8 | 517.1 | 446.3 | 553.6 |
| YEAR | 673.1 | 2679.8 | 577.8 | 517.1 | 446.3 | 553.6 |
| % change from '85 | 13.4 | 7.9 | 10.5 | 5.3 | 2.2 | -5.1 |
| 1987:1 | 738.5 | 2823.1 | 581.2 | 520.5 | 440.0 | 568.9 |
| 2 | 745.1 | 2892.4 | 586.3 | 525.1 | 438.3 | 572.6 |
| 3 | 754.2 | 2958.4 | 598.7 | 534.9 | 437.1 | 573.0 |
| 4 | 761.0 | 3006.6 | 615.4 | 548.5 | 435.6 | 579.1 |
| YEAR | 749.7 | 2920.1 | 615.4 | 548.5 | 435.6 | 579.1 |
| % change from '86 | 11.4 | 9.0 | 6.5 | 6.1 | -2.4 | 4.6 |
| 1988:1 | 772.8 | 3083.4 | 625.6 | 554.1 | 447.0 | 596.2 |
| 2 | 787.0 | 3142.5 | 632.4 | 558.0 | 449.2 | 605.6 |
| 3 | 796.6 | 3218.6 | 541.7 | 564.3 | 453.4 | 619.8 |
| 4 | 818.9 | 3298.6 | 664.5 | 571.4 | 456.0 | 631.4 |
| YEAR | 793.8 | 3185.8 | 664.5 | 571.4 | 456.0 | 631.4 |
| % change from '87 | 5.9 | 9.1 | 8.0 | 4.2 | 4.7 | 9.0 |

---

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
April 1987
Forecast

| | |
|---|---|
| +28.72% | S & P's 500 Avg. |
| +11.91% | Prime Rate |
| + 7.94% | Treas. Bills 3 mo. Yield |
| + 7.60% | Aaa Corp. Bond Rate |
| + 5.57% | 20 yr. Govt. Bonds Yield |
| + 3.41% | Conv. Mortg. Rate |

THOUGH THE CURRENT QUARTER IS SEEN TO BE THE LIKELY THE BOTTOM OF THE INTEREST RATES CYCLE, NO SIGNIFICANT RATE INCREASES ARE EXPECTED TO OCCUR THROUGHOUT THIS YEAR AND NEXT YEAR.

Is anticipated that the Federal Reserve will not push interest rates upwards significantly as interest rates in Japan, Germany, and Great Britian will continue to decline.

Forecast data show that the need for relatively high U.S. interest rates in the rest of this year and in 1988 will not as urgent as was thought in the past months.

- U.S. trade deficit will continue to decline as the U.S. dollar stabilizes.
- Interest rate adjustments among the U.S., Japan, West Germany and the U.K. will result in interest rate differentials between the U.S. on one side, and W. Germany and Japan and other industrialized countries on the other side.

The interest rate differentials will be wide enough to allow foreign investors to continue investing in U.S. Government bonds and other U.S. securities.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 20 yr. Govt. bonds yield<br>% | S & P's 1941-43 500 Avg<br>% |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3* | 5.52 | 7.85 | 9.82 | 8.81 | 7.38 | 241.15 |
| 4* | 5.35 | 7.50 | 9.43 | 8.68 | 7.44 | 243.69 |
| YEAR | 6.00 | 8.33 | 9.82 | 9.06 | 7.88 | 237.18 |
| % change from '85 | -19.7 | -11.6 | -11.7 | -20.0 | -27.6 | 26.9 |
| 1987:1 | 5.36 | 8.50 | 9.15 | 8.78 | 7.56 | 274.16 |
| 2 | 5.61 | 8.18 | 9.48 | 8.85 | 7.83 | 286.80 |
| 3 | 5.84 | 8.54 | 9.98 | 9.02 | 7.94 | 295.17 |
| 4 | 5.90 | 8.80 | 9.86 | 9.16 | 7.96 | 298.74 |
| YEAR | 5.68 | 8.50 | 9.62 | 8.95 | 7.82 | 288.72 |
| % change from '86 | -5.5 | 2.1 | -2.1 | -1.2 | -.7 | 21.7 |
| 1988:1 | 5.94 | 8.75 | 9.90 | 9.21 | 8.11 | 297.65 |
| 2 | 5.47 | 7.59 | 8.83 | 8.35 | 7.39 | 304.26 |
| 3 | 5.83 | 8.53 | 8.53 | 9.17 | 8.06 | 302.45 |
| 4 | 5.87 | 8.75 | 8.95 | 9.69 | 8.02 | 298.74 |
| YEAR | 5.78 | 8.40 | 9.05 | 9.11 | 7.89 | 300.77 |
| % change from '87 | 1.8 | -1.2 | -5.9 | 1.7 | .9 | 4.2 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of the three months Treasury bills rate has been selected for comparison. Actual number is in the Federal Reserve Bulletin, May 1987, Table 1.35, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.) Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986.)

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS
3-month Treasury Bills Rate (%)
Actual figure: 5.98

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy percent difference |
|---|---|---|---|
| First Interstate Economics, p. 42 | 11/18/85 | 8.04 | +2.06 |
| American Statistical Assn., and National Bureau of Economic Research, p. 44 | 12/85 | 7.12 | + .14 |
| Ashland Ohio, p. 44 | 12/85 | 7.13* | +1.14 |
| U.S. Chamber of Commerce, p. 47 | 12/85 | 6.60 | + .62 |
| UCLA Business Forecasting Project, p. 46 | 12/85 | 6.60 | + .62 |
| The University of Michigan, RSQE, p.49 | 12/12/85 | 6.98 | +1.00 |
| Wharton Econometric Forecasting Associates, Inc., p. 54 | 1/86 | 6.18 | + .20 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 7.19 | +1.21 |
| Standard & Poor`s Corp., p. 58 | 1/16/86 | 6.40 | +0.42 |
| Data Resources, Inc., p. 60 | 1/22/86 | 6.79 | + .81 |
| AmeriTrust Company, p. 62 | 1/27/86 | 7.50 | +1.52 |
| Money Market Services, Inc. p. 64 | 1/27/86 | 7.65 | +1.67 |
| Chase Econometrics, p. 65 | 1/29/86 | 6.94 | + .96 |
| KEDI, Inc., p. 67 | 2/1/86 | 7.14 | +1.16 |

*calculated from quarterly values

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

### TABLE 3.00

### HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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# KEDI ECONOMIC SURVEY

June 1, 1987

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SOURCES:

U.S.Department of Commerce second estimate of 1987:1, National Income and Product data, May 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, May 1987.

The latest available data on prices, employment, industrial and financial developments.

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# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

---

### Real Growth

Outlook for growth of the economy through the balance of this year is moderate--accelerating in 1988.

### Prices

Look for moderate increases of consumer and producer prices this year year and in 1988 with no significant inflation.

### Employment & Labor

In 1988 approximately 2.5 million jobs will be generated dropping the unemployment rate to 6% or slightly lower.

### Housing

April starts of single-family housing advanced by only 2% after the March drop of 5.9%. Multi-family starts dropped as well.

### Automobiles

End of May inventories of unsold care are expected to grow to 1.9 million units--82-85 days on hand compared to normal 60-65 days.

### Budgets

The final outcome of the Federal budget for FY 1988 will be near the Gramm-Rudman target of $108 billion.

### Income

The overall after-tax profits are expected to grow by more than 11 this year over last year, and by approximately 12% in 1988.

### Money & Credit

A positive development is shown in the slowing down of money supply M1 and acceleration in growth of M2.

### Interest Rates, Yields & Securities Prices

KEDI anticipates that the Federal Reserve will continue in the policy of low interest rates.

---

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the June 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1985 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3585.2 | 4037.9 | 4134.8 | 4242.3 |
| product, p. 5 | % change | 2.5 | 3.0 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 123.8 | 137.8 | 142.3 | 147.1 |
| prod., p. 5 | % change | 1.0 | 3.1 | 3.2 | 3.4 |
| Capacity | % | 80.4 | 80.9 | 80.0 | 79.3 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.2 | 6.1 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | -1.2 | 1.1 | -.9 |
| Private housing | mil.units | 1.7 | 1.8 | 1.8 | 1.9 |
| starts, p. 5 | % change | 4.9 | 3.2 | -2.4 | 3.5 |
| Car sales, | mil.units | 11.0 | 11.2 | 11.1 | 11.5 |
| p. 5 | % change | 3.2 | 2.8 | -.9 | 4.0 |
| Implicit GNP | 1982=100 | 111.5 | 126.8 | 131.4 | 136.2 |
| price def.,p.11 | % change | 2.6 | 3.4 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 322.2 | 365.1 | 376.7 | 390.3 |
| Index, p. 11 | % change | 1.9 | 3.6 | 3.2 | 3.6 |
| Prod.Price Index | 1967=100 | 293.7 | 327.5 | 342.2 | 355.2 |
| (fin.goods),p.11 | % change | -1.6 | 4.1 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -200.1 | -131.6 | -105.4 | -74.2 |
| p. 21 | % change | 15.1 | -14.2 | -19.9 | -29.6 |
| Personal Income | bil. $ | 3314.5 | 4260.8 | 4546.2 | 4887.2 |
| p. 23 | % change | 5.1 | 6.9 | 6.7 | 7.5 |
| Prime Rate | % | 9.4 | 9.2 | 10.0 | 10.9 |
| p. 27 | % change | -11.6 | 7.3 | 9.1 | 8.6 |
| Mortgage Rate | % | 11.1 | 9.6 | 9.3 | 9.5 |
| p. 27 | % change | -11.7 | 5.9 | -2.8 | 2.0 |
| Currency+demand | bil. $ | 593.6 | 851.2 | 909.1 | 968.2 |
| deposits , p. 25 | % change | 13.4 | 7.3 | 6.8 | 6.5 |
| Commercial+ind. | bil. $ | 493.9 | 590.7 | 607.8 | 620.6 |
| loans, p. 25 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 88.1 | 89.6 | 90.8 | 91.3 |
| production | % change | -4.8 | .3 | .9 | .4 |
| Electric power | mil.kw-hr | 2576 | 3229 | 3342.8 | 3499.6 |
| production | % change | 6.5 | 3.9 | 3.6 | 4.7 |
| Bituminous coal | mil.sh.tons | 873 | 930 | 973.3 | 984.1 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3279 | 2336 | 2371.7 | 2426.2 |
| output | % change | .9 | 2.0 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1377.7 | 1763.6 | 1873.0 | 2004.1 |
| p. 7 | % change | 6.2 | 6.8 | 6.2 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
## 1.11 REAL GROWTH

See Table 1.11
Page 5

KEDI's forecast of the overall growth of the U.S. economy remains unchanged:

| | |
|---|---|
| Balance of 1987: | moderate growth |
| 1988: | acceleration |
| 1989: | slowing down |
| 1990: | resumption of growth |
| 1991: | continuing growth |

NO RECESSION OR MAJOR DOWNTURN ARE PREDICETED.

Recently released data confirm this trend for the second half of this year:

* Unemployment rate was at 6.4% for both March and April.

* Factory orders up in March and April.

* Unfilled orders up in March and April.

* U.S. trade deficit down in March and April.

* Capital outlays of major U.S. corporations in 1987 will be up 10% over 1986.

* Federal budget deficit declining

* Interest rates stabilizing after the April jump.

Main weaknesses:

* Weak autos and housing will persist as anticipated for a long time.

Considering the positives and negatives, there will be moderate growth for the rest of this year.

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| + .13% | Private Housing Starts |
| + .09% | Capacity Util. |
| .00% | GNP |
| - .04% | Index Indus. Prod. |
| - 1.35% | Unemployment |
| - 2.64% | Autos |

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR<br>Unit | GNP<br>$82 bil. | Index of ind. prod**<br>1977=100 | Unem-ploy ment<br>% | Capacity util'n rate**<br>% | Private housing starts<br>mil. | Auto sales<br>mil. |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 123.8 | 7.21 | 80.4 | 1.742 | 11.0 |
| 1986:1* | 3655.9 | 125.0 | 7.06 | 80.0 | 1.990 | 10.7 |
| 2* | 3661.4 | 124.4 | 7.16 | 79.6 | 1.905 | 10.7 |
| 3* | 3686.4 | 125.0 | 6.90 | 79.7 | 1.744 | 13.2 |
| 4* | 3696.1 | 125.9 | 6.83 | 79.6 | 1.672 | 10.8 |
| YEAR | 3674.9 | 125.1 | 6.99 | 79.6 | 1.828 | 11.3 |
| % change from '85 | 2.5 | 1.0 | -3.1 | -1.0 | 4.9 | 3.2 |
| 1987:1 | 3735.9 | 126.8 | 6.67 | 80.1 | 1.822 | 10.0 |
| 2 | 3763.2 | 127.3 | 6.34 | 79.6 | 1.722 | 10.4 |
| 3 | 3796.9 | 128.4 | 6.25 | 79.8 | 1.655 | 10.9 |
| 4 | 3833.9 | 131.3 | 6.27 | 80.0 | 1.610 | 9.2 |
| YEAR | 3782.5 | 128.4 | 6.38 | 79.9 | 1.702 | 10.1 |
| % change from '86 | 2.9 | 2.7 | -8.7 | .3 | -6.9 | -10.8 |
| 1988:1 | 3850.0 | 131.9 | 6.28 | 80.2 | 1.526 | 10.0 |
| 2 | 3875.1 | 133.0 | 6.17 | 80.4 | 1.799 | 10.7 |
| 3 | 3910.8 | 134.1 | 6.10 | 80.8 | 1.910 | 11.5 |
| 4 | 4045.2 | 135.8 | 6.04 | 81.7 | 1.865 | 11.2 |
| YEAR | 3920.3 | 133.7 | 6.15 | 80.8 | 1.775 | 10.8 |
| % change from '87 | 3.6 | 4.1 | -3.7 | 1.1 | 4.3 | 7.2 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

Forecast of consumer spending remains unchanged:

- * Slow spending in 1987, especially in motor vehicles and parts.
- * Car sales will accelerate in 1988 to the 1986 levels along with strong sales of other consumer durables, specifically building materials, furniture, and fixtures.

Retail Sales Percent Changes from Preceeding Month:

| | April | May | June |
|---|---|---|---|
| Gen. Mdse. | - .5 | + .3 | + .6 |
| Bldg. Mat°l. | - .6 | + .1 | + 1.2 |
| Furniture & Home furnish. | - 1.4 | + .0 | + 1.4 |
| Auto sales | - 2.3 | - 3.8 | - 4.9 |
| Apparel & accessories | + .3 | + .4 | + .3 |
| Gasoline stns. | + 1.3 | + 1.5 | + 1.9 |
| Food stores | + .9 | + 1.1 | + 1.0 |

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| + .24% | Pers. Con. Exp. Services |
| + .13% | Retail Sales Nondurable |
| - .06% | Retail Sales Total |
| - .06% | Pers. Con. Exp. Nondurable |
| - .38% | Retail Sales Durable |
| - .72% | Pers. Con. Exp. Durable |

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-* | | | *------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. 1985* | 359.3 | 905.1 | 1336.1 | 1377.7 | 511.6 | 866.2 |
| 1986:1* | 360.8 | 929.7 | 1415.5 | 1410.8 | 526.4 | 884.4 |
| 2* | 373.9 | 928.4 | 1428.1 | 1445.6 | 532.1 | 913.5 |
| 3* | 414.5 | 932.8 | 1452.4 | 1470.2 | 559.4 | 910.8 |
| 4* | 403.1 | 940.1 | 1477.2 | 1516.9 | 560.3 | 935.5 |
| YEAR | 388.1 | 932.8 | 1443.3 | 1460.9 | 544.5 | 911.0 |
| % change from '85 | 8.0 | 3.1 | 8.0 | 6.0 | 6.4 | 5.2 |
| 1987:1 | 384.6 | 961.5 | 1504.5 | 1504.1 | 554.1 | 950.0 |
| 2 | 394.0 | 966.1 | 1547.8 | 1513.7 | 558.8 | 954.9 |
| 3 | 406.0 | 976.5 | 1589.5 | 1530.1 | 575.1 | 955.0 |
| 4 | 404.3 | 983.1 | 1639.5 | 1581.2 | 588.2 | 993.0 |
| YEAR | 397.2 | 971.8 | 1570.3 | 1532.3 | 569.0 | 963.2 |
| % change from '86 | 2.4 | 4.2 | 8.8 | 4.9 | 4.5 | 5.7 |
| 1988:1 | 409.5 | 998.0 | 1654.4 | 1626.0 | 608.4 | 1017.6 |
| 2 | 412.4 | 1016.1 | 1693.8 | 1640.2 | 617.8 | 1022.4 |
| 3 | 426.3 | 1025.7 | 1705.8 | 1656.1 | 627.1 | 1029.0 |
| 4 | 450.4 | 1038.2 | 1866.3 | 1683.1 | 634.6 | 1048.5 |
| YEAR | 424.6 | 1019.5 | 1730.1 | 1651.3 | 622.0 | 1029.4 |
| % change from '87 | 6.9 | 4.9 | 10.2 | 7.8 | 9.3 | 6.9 |

## 1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change from May 1987 Forecast

| | |
|---|---|
| + 1.42% | Net Exports |
| + .81% | Gross Private Dom. Inv. |
| + .08% | GNP |
| - .05% | Pers. Cons. Expend. |
| - .18% | State Local Purch. |
| - .46% | Federal Govt. Purch. |

The second estimate of the Department of Commerce of 1987:1 GNP has not brought significant changes when compared to the first estimate, and have not affected KEDI's forecast.

Forecast data on real GNP for 1987 continue to present the 1987 picture of the U.S. economy:

* Slow consumer demand, especially for autos.

* Slow business capital formation, improving a bit in the second half of this year.

* Business inventories at high levels.

* Slowing down in housing starts.

* Improved balance of trade in real terms.

AND IN 1988:

* Consumer demand accelerating, increases car purchases.

* Stronger than in 1987 business capital outlays, especially in equipment.

* Declines in business inventories.

* Further improvement in foreign trade.

* Government purchases continue at low levels.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Gross National Product | | | | | |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1985* | 3585.2 | 2324.5 | 647.7 | -108.2 | 323.6 | 397.6 |
| 1986:1* | 3655.9 | 2372.6 | 684.0 | -125.9 | 320.4 | 404.8 |
| 2* | 3661.4 | 2408.4 | 664.7 | -153.9 | 328.9 | 413.3 |
| 3* | 3686.4 | 2448.0 | 651.3 | -163.3 | 330.9 | 419.5 |
| 4* | 3696.1 | 2445.8 | 629.0 | -148.0 | 348.6 | 420.7 |
| YEAR | 3674.9 | 2418.7 | 657.2 | -147.8 | 332.2 | 414.6 |
| % change from '85 | 2.5 | 4.1 | 1.5 | 36.6 | 2.7 | 4.3 |
| 1987:1 | 3735.9 | 2438.9 | 678.9 | -137.2 | 331.0 | 424.3 |
| 2 | 3763.2 | 2476.4 | 658.2 | -134.5 | 336.6 | 426.5 |
| 3 | 3796.9 | 2496.7 | 655.6 | -125.7 | 340.2 | 430.1 |
| 4 | 3833.9 | 2519.2 | 662.3 | -122.3 | 342.3 | 432.4 |
| YEAR | 3782.5 | 2482.8 | 663.8 | -129.9 | 337.5 | 428.3 |
| % change from '86 | 2.9 | 2.7 | 1.0 | -12.1 | 1.6 | 3.3 |
| 1988:1 | 3850.0 | 2430.0 | 667.3 | -118.4 | 347.3 | 439.1 |
| 2 | 3875.1 | 2524.4 | 670.9 | -112.1 | 350.0 | 441.9 |
| 3 | 3910.8 | 2550.7 | 671.8 | -108.2 | 352.4 | 444.1 |
| 4 | 4045.2 | 2695.3 | 676.9 | -129.1 | 354.0 | 448.1 |
| YEAR | 3920.3 | 2572.1 | 671.7 | -117.0 | 350.1 | 443.3 |
| % change from '87 | 3.6 | 3.6 | 1.2 | -10.0 | 3.7 | 3.5 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

LOOK FOR MODERATE INCREASES OF CONSUMER AND PRODUCER PRICES THIS YEAR AND IN 1988 WITH NO SIGNIFICANT PICK-UP IN INFLATION.

For the balance of 1987 and in 1988, the main components that will be pushing the price levels upwards are:

* Energy prices, mainly prices of gasoline expected to reach $1, and in international price of $20 per barrel are expected in 1988.

* Prices of services, especially medical, legal, transportation, amusement, and business services will continue pushing the retail price level upwards

* Major increases in prices of imported goods are NOT expected, but will continue to be modest. Foreign producers will try to hold down prices to maintain their market shares in the U.S.

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | | |
|---|---|---|
| + | .26% | Consumer Price Index |
| + | .09% | Federal Govt. Purch. |
| + | .08% | GNP |
| + | .05% | Pers. Cons. Expend. |
| | .00% | State Local Purch. |
| - | .33% | Producer Price Index |

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1985* | 322.2 | 293.7 | 111.5 | 111.5 | 109.4 | 116.0 |
| 1986:1* | 327.3 | 290.8 | 113.5 | 113.5 | 111.0 | 118.8 |
| 2* | 326.5 | 288.5 | 114.0 | 114.1 | 111.8 | 119.4 |
| 3* | 328.9 | 287.9 | 115.0 | 115.1 | 111.6 | 120.3 |
| 4* | 330.9 | 288.4 | 115.2 | 115.3 | 106.7 | 122.0 |
| YEAR | 328.4 | 288.9 | 114.4 | 114.2 | 110.3 | 120.1 |
| % change from '85 | 1.9 | -1.6 | 2.6 | 2.4 | .8 | 3.6 |
| 1987:1 | 333.9 | 292.0 | 116.4 | 116.8 | 111.1 | 123.2 |
| 2 | 337.9 | 295.1 | 117.3 | 117.4 | 112.6 | 124.3 |
| 3 | 340.1 | 300.1 | 118.4 | 119.0 | 113.9 | 125.4 |
| 4 | 344.2 | 304.8 | 119.5 | 120.2 | 115.6 | 127.1 |
| YEAR | 339.0 | 298.0 | 117.9 | 118.4 | 113.3 | 125.0 |
| % change from '86 | 3.2 | 3.1 | 3.0 | 3.7 | 2.7 | 4.1 |
| 1988:1 | 348.7 | 308.9 | 120.8 | 126.0 | 117.1 | 128.3 |
| 2 | 351.2 | 312.3 | 122.4 | 123.7 | 118.4 | 129.6 |
| 3 | 353.5 | 317.3 | 122.9 | 123.8 | 119.6 | 131.8 |
| 4 | 356.1 | 319.9 | 124.5 | 124.5 | 121.4 | 133.0 |
| YEAR | 352.4 | 314.6 | 122.7 | 124.5 | 119.1 | 130.7 |
| % change from '87 | 3.9 | 5.6 | 4.0 | 5.2 | 5.1 | 4.5 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| + 1.09% | Gross Private Dom. Inv. |
| + .13% | GNP |
| + .01% | Pers. Cons. Expend. |
| - .22% | Net Exports |
| - .22% | State Local Purch. |
| - .30% | Federal Govt. Purch. |

FORECAST DATA ON GNP AND COMPONENTS FOR 1987 AND 1988 POINT TO HEALTHY GROWTH WITH ACCELERATION IN CONSUMER SPENDING, IMPROVEMENT IN NET EXPORTS, AND REGULAR INCREMENTS IN GOVERNMENT SPENDING.

The second estimate of GNP and related data for 1987:1 by the Department of Commerce remains essentially unchanged when compared to the first estimate. The main positive feature is foreign trade. The merchandise trade balance data show the start of the trend of gradual improvement:

* Exports increased by 12,9%
* Imports increased by only 2.9%
* The trade balance with key areas has improved.

Merchandise Trade Balance
(bil. $)

| | 3/87 | 2/97 | 3/86 |
|---|---|---|---|
| Japan | - 4.95 | - 5.07 | - 5.50 |
| Canada | - 1.47 | - 1.89 | - 2.30 |
| W.Europe | - 2.55 | - 1.89 | - 2.70 |

## TABLE 1.22
## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 3998.1 | 2619.1 | 661.1 | -78.9 | 354.1 | 461.3 |
| 1986:1* | 4156.8 | 2706.0 | 708.3 | -93.7 | 355.6 | 480.5 |
| 2* | 4174.0 | 2730.3 | 687.3 | -104.5 | 367.7 | 493.1 |
| 3* | 4240.7 | 2799.8 | 675.8 | -108.9 | 369.3 | 504.7 |
| 4* | 4258.7 | 2820.4 | 663.2 | -110.2 | 372.1 | 513.2 |
| YEAR | 4205.1 | 2761.4 | 683.6 | -104.3 | 366.2 | 497.9 |
| % change from '85 | 5.2 | 5.4 | 3.4 | 32.2 | 3.4 | 7.9 |
| 1987:1 | 4348.4 | 2850.7 | 718.1 | -111.9 | 369.2 | 522.2 |
| 2 | 4414.2 | 2907.9 | 703.2 | -106.0 | 379.0 | 530.1 |
| 3 | 4495.5 | 2972.0 | 699.5 | -102.8 | 387.5 | 539.3 |
| 4 | 4581.5 | 3026.9 | 705.3 | -96.0 | 395.7 | 549.6 |
| YEAR | 4459.9 | 2939.4 | 706.5 | -104.2 | 382.8 | 535.3 |
| % change from '86 | 6.1 | 6.4 | 3.3 | -.1 | 4.6 | 7.5 |
| 1988:1 | 4650.8 | 3061.9 | 708.9 | -90.1 | 406.7 | 563.4 |
| 2 | 4743.1 | 3122.3 | 713.8 | -80.1 | 414.4 | 572.7 |
| 3 | 4806.4 | 3157.8 | 719.6 | -77.8 | 421.5 | 585.3 |
| 4 | 5036.3 | 3354.9 | 725.7 | -70.1 | 429.8 | 596.0 |
| YEAR | 4808.2 | 3202.0 | 717.0 | -79.5 | 418.1 | 579.3 |
| % change from '87 | 7.8 | 8.9 | 1.5 | -23.7 | 9.2 | 8.2 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| .00% | Agriculture |
| - .01% | Non-Agri. |
| - .01% | Population |
| - .01% | Total Employed |
| - .08% | Civilian Labor Force |
| - 1.35% | Unemployment rate |

IN 1988 APPROXIMATELY 2.5 MILLION JOBS WILL BE GENERATED DROPPING THE UNEMPLOYMENT RATE TO 6% OR SLIGHTLY BELOW.

The May unemployment rate is expected to remain at 6.3%, unchanged from April and will hover around 6.1-6.4% for the rest of this year.

The forecast data on employment show modest increases in goods-producing industries and major gains in service producing industries for the forecast period.

There will be stabilization and increases in all industries with no more declines in steel and steel related industries, farm machinery and equipment.

## TABLE 1.30
## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | *-------Employment-------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non-agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1985* | 241.7 | 115.4 | 107.2 | 3.2 | 103.9 | 7.21 |
| 1986:1* | 244.5 | 117.0 | 108.7 | 3.2 | 105.5 | 7.06 |
| 2* | 245.9 | 117.7 | 109.3 | 3.2 | 106.1 | 7.16 |
| 3* | 247.3 | 118.2 | 110.2 | 3.2 | 104.1 | 6.90 |
| 4* | 249.8 | 118.6 | 110.5 | 3.1 | 107.4 | 6.83 |
| YEAR | 246.9 | 117.9 | 110.4 | 3.2 | 107.2 | 6.99 |
| % change from '85 | 2.1 | 2.1 | 2.0 | -.8 | 3.2 | -3.09 |
| 1987:1 | 250.7 | 119.2 | 111.2 | 3.1 | 108.1 | 6.67 |
| 2 | 252.3 | 120.3 | 112.7 | 3.1 | 109.6 | 6.34 |
| 3 | 254.0 | 121.7 | 114.1 | 3.1 | 111.0 | 6.25 |
| 4 | 256.1 | 122.0 | 114.4 | 3.1 | 111.3 | 6.27 |
| YEAR | 253.3 | 120.8 | 113.1 | 3.1 | 110.0 | 6.38 |
| % change from '86 | 2.6 | 2.5 | 2.7 | -2.4 | 2.6 | -8.66 |
| 1988:1 | 257.5 | 122.1 | 114.4 | 3.1 | 111.3 | 6.28 |
| 2 | 259.6 | 123.0 | 115.4 | 3.0 | 112.4 | 6.17 |
| 3 | 261.4 | 124.2 | 116.6 | 3.0 | 113.6 | 6.10 |
| 4 | 263.5 | 125.3 | 117.7 | 3.0 | 114.7 | 6.04 |
| YEAR | 260.5 | 123.7 | 116.0 | 3.1 | 112.9 | 6.15 |
| % change from '87 | 2.9 | 2.4 | 2.4 | 0.0 | 2.7 | -3.68 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

APRIL STARTS OF SINGLE-FAMILY HOUSING ADVANCED BY ONLY 2% AFTER THE MARCH DROP OF 5.9%. MULTI-FAMILY STARTS DROPPED IN APRIL BY -14.1% AFTER THE -2.2% DROP IN MARCH.

Permits authorized--the indicator of future housing activity dropped by -.7% in April. That points to a week performance for the rest of the year.

Forecast data show that mortgage rates peaked in past months and gradual declines are forecast for the rest of this year, and low levels in 1988 are predicted. However, the data show that these declines will not be a significant stimulus in improving the performance of housing.

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| + .13% | Single Family Housing Starts |
| - .58% | 1-Family unit price existing |
| - .65% | 1-Family unit price New |
| - 1.27% | Mobile Home Shipments |
| - 3.50% | Permits Issued |
| - 8.36% | Multiple Family Housing Starts |

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts<br>mil. | Multi-family housing starts<br>mil. | Mobile home shipments<br>mil. | Permits authorized<br>mil. | 1-Fam. unit price new**<br>tho. $ | 1-Fam. unit price exist**<br>tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 1.072 | .669 | .284 | 1.735 | 101.0 | 90.6 |
| 1986:1* | 1.257 | .733 | .258 | 1.839 | 106.3 | 94.4 |
| 2* | 1.242 | .663 | .241 | 1.805 | 111.9 | 100.6 |
| 3* | 1.142 | .602 | .237 | 1.678 | 114.7 | 98.8 |
| 4* | 1.156 | .545 | .243 | 1.696 | 117.4 | 99.0 |
| YEAR | 1.199 | .636 | .245 | 1.754 | 112.6 | 98.2 |
| % change from '85 | 11.9 | -5.0 | -13.8 | 1.1 | 11.5 | 8.4 |
| 1987:1 | 1.293 | .529 | .257 | 1.731 | 120.0 | 99.5 |
| 2 | 1.214 | .508 | .261 | 1.602 | 120.1 | 102.0 |
| 3 | 1.142 | .513 | .248 | 1.611 | 122.1 | 102.2 |
| 4 | 1.089 | .521 | .241 | 1.572 | 123.4 | 105.1 |
| YEAR | 1.184 | .518 | .252 | 1.629 | 121.4 | 102.2 |
| % change from '86 | -1.2 | -18.6 | 2.9 | -7.2 | 7.8 | 4.1 |
| 1988:1 | 1.002 | .524 | .247 | 1.565 | 127.0 | 107.6 |
| 2 | 1.211 | .588 | .261 | 1.694 | 129.4 | 109.4 |
| 3 | 1.292 | .618 | .289 | 1.801 | 132.0 | 111.7 |
| 4 | 1.259 | .606 | .295 | 1.785 | 135.8 | 114.8 |
| YEAR | 1.191 | .584 | .273 | 1.711 | 131.1 | 110.9 |
| % change from '87 | .5 | 12.8 | 8.4 | 5.0 | 7.9 | 8.5 |

---

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

|  |  |
|---|---|
| + 5.56% | Dealer Inventory |
| + .89% | Imported Car Sales |
| - 2.64% | Total Car Sales |
| - 2.86% | Total Light Truck Sales |
| - 3.95% | Domestic Car Sales |
| - 6.09% | Shipments |

END OF MAY INVENTORIES OF UNSOLD CARS ARE EXPECTED TO GROW TO 1.9 MILLION UNITS GIVING DEALERS 82-85 DAYS COMPARED TO NORMAL 60-65 DAYS ON HAND.

Recent data confirm the downward trend in production of cars for the remainder of this year.

Production plans of domestic car builders have been reduced for 1987:3, compared to the actual output in 1986:3.

|  |  |
|---|---|
| GM | - 17.7% |
| Ford | - 5.4% |
| Chrysler | - 17.5% |
| VW | - 63.1% |
| Honda | + 15.9% |
| Toyota | + 452.0% |
| Nissan | + 175.0% |
| Total | - 12.8% |

Not including AMC

Labor talks between UAW and the automakers have started but KEDI does not anticipate a strike. Majority of economists predict 7.0-7.4 million car production this year, while KEDI's forecast calls for 7.2-7.3 million units.

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1985* | 11.0 | 8.2 | 2.8 | 1.3 | 8.4 | 3.7 |
| 1986:1* | 10.7 | 7.9 | 2.8 | 1.9 | 7.7 | 3.4 |
| 2* | 10.7 | 7.7 | 3.0 | 1.8 | 8.3 | 3.5 |
| 3* | 13.2 | 9.7 | 3.5 | 1.3 | 11.0 | 3.6 |
| 4 | 10.8 | 7.0 | 3.0 | 1.4 | 8.7 | 3.3 |
| YEAR | 11.3 | 8.1 | 3.1 | 1.4 | 8.9 | 3.5 |
| % change from '85 | 3.2 | -1.5 | 9.8 | 7.7 | 6.3 | -6.8 |
| 1987:1 | 10.0 | 7.4 | 2.6 | 1.8 | 7.8 | 3.3 |
| 2 | 10.4 | 7.7 | 2.7 | 1.9 | 7.2 | 3.4 |
| 3 | 10.9 | 7.9 | 3.0 | 1.8 | 7.0 | 3.6 |
| 4 | 9.2 | 6.2 | 3.0 | 1.9 | 7.3 | 3.3 |
| YEAR | 10.1 | 7.3 | 2.8 | 1.9 | 7.3 | 3.4 |
| % change from '86 | -10.8 | -2.7 | -8.1 | 35.7 | -17.9 | -1.4 |
| 1988:1 | 10.0 | 6.9 | 3.1 | 1.9 | 7.0 | 3.2 |
| 2 | 10.7 | 7.7 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 11.5 | 8.4 | 3.1 | 1.7 | 8.2 | 3.7 |
| 4 | 11.2 | 8.1 | 3.1 | 1.7 | 8.0 | 3.8 |
| YEAR | 10.8 | 7.8 | 3.1 | 1.7 | 7.7 | 3.5 |
| % change from '87 | 7.2 | -1.7 | 8.8 | -10.5 | 4.8 | 4.4 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| +10.79% | Corp. Profit Tax Accrued |
| + 8.30% | State Local Corp. Tax Accrued |
| + 1.44% | Federal Income Tax |
| + .33% | State Income Tax |
| - 3.25% | Federal Surplus/ Deficit |
| -14.61% | State Surplus/ Deficit |

THE FINAL OUTCOME OF THE FEDERAL BUDGET FOR FY 1988 WILL BE NEAR THE GRAMM-RUDMAN TARGET OF $108 BILLION. IN APRIL THE HOUSE BUDGET COMMITTEE PROPOSED $132.5 BILLION AND THE SENATE $123.7 BILLION.

This is critically important in light of:

- Federal deficits are still largely financed by foreign investors, presently mainly Japanese and Western European investors. That increases the dependency of U.S. on foreigners. Calculations show that if the Gramm-Rudman targets are met, foreign investments in the foreign debt will be significantly reduced when compared to the House or Senate proposals.
- Meeting the Gramm-Rudman targets will generate the conditions for further reductions in interest rates. Financial markets will have more funds to finance the needs of the economy.

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | FEDERAL Income taxes | FEDERAL Corp. profits tax accru. | FEDERAL Surplus /deficit | STATE AND LOCAL Income taxes | STATE AND LOCAL Corp. profits tax accru. | STATE AND LOCAL Surplus /deficit |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 350.8 | 67.7 | -200.1 | 142.0 | 18.1 | 59.2 |
| 1986:1* | 350.3 | 71.2 | -201.6 | 147.2 | 17.5 | 70.0 |
| 2* | 353.1 | 75.2 | -238.1 | 151.7 | 18.1 | 59.0 |
| 3* | 365.8 | 84.3 | -197.4 | 153.1 | 20.1 | 64.0 |
| 4* | 376.1 | 92.7 | -189.2 | 158.9 | 21.9 | 59.4 |
| YEAR | 361.3 | 80.8 | -206.6 | 152.7 | 19.4 | 63.1 |
| % change from '85 | 3.0 | 19.4 | 3.2 | 7.6 | 7.2 | 6.6 |
| 1987:1 | 375.0 | 106.1 | -174.4 | 158.1 | 23.8 | 51.1 |
| 2 | 394.3 | 108.4 | -170.1 | 163.0 | 24.3 | 54.7 |
| 3 | 399.8 | 110.6 | -167.4 | 167.9 | 24.8 | 58.2 |
| 4 | 401.2 | 114.5 | -166.3 | 170.4 | 25.0 | 60.4 |
| YEAR | 392.6 | 109.9 | -169.6 | 164.8 | 24.5 | 56.1 |
| % change from '86 | 8.6 | 35.9 | -17.9 | 7.9 | 26.2 | -11.1 |
| 1988:1 | 407.2 | 116.3 | -162.1 | 171.9 | 25.4 | 62.0 |
| 2 | 414.3 | 118.7 | -158.3 | 174.2 | 26.7 | 62.9 |
| 3 | 419.8 | 119.8 | -151.2 | 176.4 | 27.5 | 64.3 |
| 4 | 425.9 | 120.5 | -142.1 | 179.1 | 28.0 | 65.8 |
| YEAR | 416.8 | 118.8 | -153.4 | 175.4 | 26.9 | 63.8 |
| % change from '87 | 6.2 | 8.1 | -9.5 | 6.4 | 9.9 | 13.6 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change from May 1987 Forecast

| | |
|---|---|
| + 5.02% | Corp. After Tax Profit |
| + 2.51% | Personal Savings |
| + .22% | Personal Income |
| + .02% | Comp. of Employees |
| - .01% | Personal Disp. Income |
| - .28% | Average Weekly Earnings |

THE OVERALL AFTER-TAX PROFITS ARE EXPECTED TO GROW BY MORE THAN 16% THIS YEAR OVER LAST YEAR, AND BY APPROXIMATELY 12% IN 1988 OVER 1987.

Forecast data for Personal Income, Personal Disposable Income and Components for 1987 and 1988 are commensurate with the growth of other indicators for that period. Do no expect declines or irregularities to take place.

Forecast data for income of U.S. businesses are optimistic with significant increases over 1986.

Forecast of increases in average earnings in manufacturing is modest for this year. Do not expect significant increases before next year.

### TABLE 1.60
### INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1985* | 3314.5 | 2828.0 | 2368.2 | 131.4 | 143.3 | 382.0 |
| 1986:1* | 3444.3 | 2946.8 | 2461.5 | 135.2 | 145.6 | 391.2 |
| 2* | 3489.3 | 2984.5 | 2486.9 | 138.0 | 153.1 | 393.9 |
| 3* | 3498.8 | 2979.9 | 2507.4 | 135.9 | 84.1 | 393.7 |
| 4* | 3527.9 | 2993.0 | 2540.7 | 144.2 | 74.2 | 397.9 |
| YEAR | 3490.1 | 2976.1 | 2499.1 | 138.3 | 114.2 | 394.2 |
| % change from '85 | 5.3 | 5.2 | 5.5 | 5.3 | -20.3 | 3.2 |
| 1987:1 | 3596.2 | 3053.1 | 2564.3 | 153.2 | 104.0 | 401.1 |
| 2 | 3677.1 | 3119.8 | 2610.2 | 159.6 | 109.7 | 402.6 |
| 3 | 3744.4 | 3176.7 | 2663.5 | 163.8 | 110.4 | 406.9 |
| 4 | 3816.1 | 3244.5 | 2720.7 | 169.5 | 112.6 | 409.2 |
| YEAR | 3708.5 | 3148.5 | 2639.7 | 161.5 | 109.2 | 404.9 |
| % change from '86 | 6.3 | 5.8 | 5.6 | 16.8 | -4.4 | 2.7 |
| 1988:1 | 3855.5 | 3276.4 | 2765.3 | 174.6 | 114.3 | 411.8 |
| 2 | 3926.7 | 3338.2 | 2794.1 | 178.4 | 116.5 | 414.5 |
| 3 | 3974.9 | 3378.7 | 2853.2 | 185.2 | 120.8 | 417.1 |
| 4 | 4185.8 | 3580.8 | 2891.5 | 187.4 | 125.1 | 422.6 |
| YEAR | 3985.7 | 3393.5 | 2826.0 | 181.4 | 119.2 | 416.5 |
| % change from '87 | 7.5 | 7.8 | 7.1 | 12.3 | 9.2 | 2.9 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
May 1987
Forecast

| | |
|---|---|
| + 1.15% | Large Denom. Time Deposits |
| - .06% | Consumer Install. Credit |
| - .09% | Comm. & Indust. Loans at Banks |
| - .12% | Time Deposits |
| - .54% | Currency & Demand Deposits |
| - .69% | Mortg. at S & L Assns. |

A POSITIVE DEVELOPMENT IS SHOWN IN THE SLOWING DOWN OF MONEY SUPPLY M1 AND ACCELERATION IN GROWTH OF M2. THIS IS EXPECTED THROUGH THE REST OF THIS YEAR AND IN 1988.

In the past four years the fast growth of M1 was necessary because of growing Federal deficits, and foreign trade imbalance. Forecast data show that the Federal deficit is declining, and will continue to decline along with the trade deficit. So, there is no necessity for a fast growth of M1.

The expected acceleration of M2 is in line with overall growth in the economy. In 1988, the economy will accelerate along with M2.

Forecast of credit aggregates show no irregularities with faster growth of Consumer Credit and mortgage loans in 1988 compared to 1987 due to increases in purchases of cars and other consumer durables in 1988; and regular increments in commercial and industrial loans.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1985* | 593.6 | 2484.0 | 522.8 | 493.9 | 436.5 | 583.2 |
| 1986:1* | 633.9 | 2581.3 | 550.3 | 502.1 | 448.5 | 574.7 |
| 2* | 658.4 | 2646.3 | 551.8 | 508.0 | 447.5 | 565.1 |
| 3* | 685.6 | 2716.1 | 571.3 | 511.4 | 448.5 | 557.1 |
| 4* | 714.7 | 2775.5 | 577.8 | 517.1 | 446.3 | 553.6 |
| YEAR | 673.1 | 2679.8 | 577.8 | 517.1 | 446.3 | 553.6 |
| % change from '85 | 13.4 | 7.9 | 10.5 | 5.3 | 2.2 | -5.1 |
| 1987:1 | 732.2 | 2820.7 | 581.6 | 520.4 | 450.1 | 569.4 |
| 2 | 740.1 | 2889.4 | 586.9 | 525.0 | 448.9 | 570.3 |
| 3 | 750.2 | 2950.4 | 598.7 | 534.6 | 446.5 | 571.2 |
| 4 | 760.1 | 3006.2 | 615.0 | 548.0 | 440.6 | 574.1 |
| YEAR | 745.7 | 2916.7 | 615.0 | 548.0 | 440.6 | 575.1 |
| % change from '86 | 10.8 | 8.8 | 6.4 | 6.0 | -1.3 | 3.9 |
| 1988:1 | 772.1 | 3080.4 | 620.1 | 553.7 | 448.1 | 590.3 |
| 2 | 786.8 | 3139.5 | 630.4 | 558.0 | 449.9 | 604.2 |
| 3 | 796.0 | 3216.7 | 541.7 | 563.6 | 453.6 | 619.7 |
| 4 | 818.4 | 3296.5 | 662.3 | 571.4 | 457.3 | 630.5 |
| YEAR | 793.3 | 3183.3 | 662.3 | 572.4 | 457.3 | 630.5 |
| % change from '87 | 6.4 | 9.1 | 7.7 | 4.5 | 3.8 | 9.6 |

---

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

KEDI ANTICIPATES THAT THE FEDERAL RESERVE WILL CONTINUE IN THE POLICY OF LOW INTEREST RATES. THE APRIL INCREASES WERE THE MAJOR ADJUSTMENTS AND NO FURTHER SIGNIFICANT UPWARD MOVES WILL TAKE PLACE.

LONG TERM RATES: Forecast data show no further increases this year and for the most of next year. Interest rate differentials between the U.S. and the six major industrialized countries are wide enough NOW to keep attracting foreign capital to invest in the U.S.

SHORT TERM RATES: KEDI forecast calls for stabilization of most short-term rates for the rest of the year with some possible declines in rates on short-term Teasury securities.

BOND MARKET, in general, will continue improving in coming months. Expect strong performance of the stock market for the rest of this year and in 1988.

### 1987 FORECAST DATA

Percent Change from May 1987 Forecast

| | |
|---|---|
| + 1.90% | S & P's 500 Avg. |
| + 1.79% | Conv. Mortg. Rate |
| + .71% | Prime Rate |
| - .13% | 20 yr. Govt. Bonds Yield |
| - .17% | Aaa Corp. Bond Rate |
| - 1.45% | Treas. Bills 3 mo. Yield |

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 20 yr. Govt. bonds yield<br>% | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1985* | 7.48 | 9.43 | 11.12 | 11.32 | 10.88 | 186.84 |
| 1986:1* | 7.01 | 9.37 | 10.22 | 9.74 | 9.01 | 221.72 |
| 2* | 6.14 | 8.61 | 9.82 | 9.00 | 7.67 | 242.16 |
| 3* | 5.52 | 7.85 | 9.82 | 8.81 | 7.38 | 241.15 |
| 4* | 5.35 | 7.50 | 9.43 | 8.68 | 7.44 | 243.69 |
| YEAR | 6.00 | 8.33 | 9.82 | 9.06 | 7.88 | 237.18 |
| % change from '85 | -19.7 | -11.6 | -11.7 | -20.0 | -27.6 | 26.9 |
| 1987:1 | 5.36 | 8.50 | 9.15 | 8.78 | 7.56 | 276.40 |
| 2 | 5.61 | 8.50 | 9.89 | 8.94 | 7.86 | 290.20 |
| 3 | 5.72 | 8.54 | 10.12 | 9.02 | 7.90 | 301.24 |
| 4 | 5.70 | 8.70 | 10.01 | 9.00 | 7.92 | 309.00 |
| YEAR | 5.60 | 8.56 | 9.79 | 8.93 | 7.81 | 294.21 |
| % change from '86 | -6.8 | 2.7 | -.3 | -1.4 | -.8 | 24.0 |
| 1988:1 | 5.52 | 8.65 | 9.94 | 8.92 | 7.94 | 314.65 |
| 2 | 5.43 | 8.59 | 8.83 | 8.75 | 8.02 | 314.16 |
| 3 | 5.74 | 8.50 | 8.53 | 8.67 | 8.06 | 315.47 |
| 4 | 5.79 | 8.50 | 8.95 | 8.69 | 7.93 | 320.60 |
| YEAR | 5.62 | 8.56 | 9.06 | 8.76 | 7.99 | 316.22 |
| % change from '87 | .4 | .0 | -7.5 | -2.0 | 2.3 | 7.5 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Federal Government Expenditures has been selected for comparison. Actual number is in the Survey of Current Business, April 1987 issue, Table 1.1 (U.S. Dedpartment of Commerce, Washington, D.C., monthly). Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

### TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Federal Government Expenditures (bil.$)
Actual figure: 366.2

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy percent difference |
|---|---|---|---|
| Manufacturers Hanover Trust Co., p. 45 | 12/85 | 337.9 | -6.7 |
| UCLA Business Forecasting Project, p. 46 | 12/85 | 340.6 | -7.0 |
| The Equitable Life Assurance Society of the U.S., p. 48 | 12/4/85 | 354.2 | -3.3 |
| Research Seminar in Quantitative Economics, p. 49 | 12/12/85 | 342.2 | -6.6 |
| L.D. Reece, Cities Service Oil and Gas Corporation, p. 53 | 1/86 | 333.9 | -8.8 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 393.2 | +7.4 |
| Standard & Poor's Corp., p. 58 | 1/16/86 | 325.1 | -11.2 |
| Armco, Inc., p. 59 | 1/22/86 | 317.1 | -13.4 |
| Shearson Lehman Bros., Inc., p. 61 | 1/23/86 | 319.4 | -12.8 |
| J. D. McAuley, Fordham Univ., p. 62 | 1/24/86 | 342.0 | -6.4 |
| Money Market Services, Inc., p. 64 | 1/27/86 | 375.5 | +2.6 |
| Georgia State Univ., p. 66 | 2/86 | 376.0 | +2.7 |
| KEDI, Inc., p. 67 | 2/1/86 | 367.8 | + .4 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly) **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

### HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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# KEDI ECONOMIC SURVEY

July 1, 1987

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SOURCES:

U.S.Department of Commerce third estimate of 1987:1, National Income and Product data, June 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, June 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

The economy will continue a six year growth through 1988 with less unemployment, more output, and smaller federal deficit.

### Prices

Look for moderate consumer and business inflation for the balance of this year with a slight acceleration in 1988.

### Employment & Labor

Main increases in employment are expected in services with a 9 to 1 ratio of new jobs for services versus manufacturing.

### Housing

May housing starts declined by 2.7% compared to April starts for the third consecutive decline in starts this year.

### Automobiles

Despite a potpouri of rebates, prices of cars in the past 18 months have risen faster than average family income.

### Budgets

Continued sstrong government demand for money would displace private investment, push up interest rates and fuel inflation.

### Income

KEDI forecast data point to approximately 13% growth of earnings this year and 15% growth in 1988 over 1987.

### Money & Credit

The FED will not have to generate as much money as in the past as the deficit continues to decline and trade imbalance improves.

### Interest Rates, Yields & Securities Prices

Expect interest rates to remain at present levels for the balance of this year with a slight decline in 1988.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1988. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the July 1987 KEDI forecast.
- In 1987 moderate growth is expected. It will accelerate in 1988.
- The upward trend will continue throughout 1990-1991.
- Forecast data for 1988-1991 do not point to recession or major downturn.
- In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.
- Federal budget deficits will keep declining in 1987 and the following fiscal years.
- The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1986 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3674.9 | 4231.6 | 4333.1 | 4445.8 |
| product, p. 5 | % change | 3.0 | 3.1 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 125.1 | 142.2 | 146.7 | 151.7 |
| prod., p. 5 | % change | 2.8 | 3.2 | 3.2 | 3.4 |
| Capacity | % | 79.6 | 81.7 | 80.8 | 80.1 |
| utiliz., p. 5 | % change | 0.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 5.7 | 6.5 | 6.4 |
| rate, p. 5 | % change | -10.8 | -1.2 | 1.1 | -.9 |
| Private housing | mil.units | 1.8 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | -3.1 | 3.4 | -2.4 | 3.5 |
| Car sales, | mil.units | 11.5 | 10.9 | 10.8 | 11.2 |
| p. 5 | % change | -17.4 | 2.9 | -.9 | 4.0 |
| Implicit GNP | 1982=100 | 114.5 | 137.2 | 142.1 | 147.4 |
| price def.,p.11 | % change | 3.2 | 3.5 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 328.4 | 381.2 | 393.4 | 407.5 |
| Index, p. 11 | % change | 3.2 | 3.6 | 3.2 | 3.6 |
| Prod.Price Index | 1967=100 | 289.6 | 346.1 | 361.7 | 375.4 |
| (fin.goods),p.11 | % change | 3.0 | 4.2 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -203.3 | -117.9 | -95.4 | -76.6 |
| p. 21 | % change | 3.2 | -13.6 | -19.1 | -19.7 |
| Personal Income | bil. $ | 3485.7 | 4879.2 | 5206.1 | 5596.6 |
| p. 23 | % change | 5.3 | 6.9 | 6.7 | 7.5 |
| Prime Rate | % | 8.3 | 8.0 | 8.7 | 9.5 |
| p. 27 | % change | -11.6 | -4.5 | 9.1 | 8.6 |
| Mortgage Rate | % | 9.8 | 10.3 | 10.0 | 10.2 |
| p. 27 | % change | -.1 | 5.9 | -2.8 | 2.0 |
| Currency+demand | bil. $ | 673.2 | 951.1 | 1015.8 | 1081.8 |
| deposits , p. 25 | % change | 10.7 | 7.3 | 6.8 | 6.5 |
| Commercial+ind. | bil. $ | 517.6 | 595.7 | 612.9 | 625.8 |
| loans, p. 25 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 87.4 | 90.2 | 90.8 | 91.3 |
| production | % change | -.1 | .3 | .9 | .4 |
| Electric power | mil.kw-hr | 2614 | 3350 | 3342.8 | 3499.6 |
| production | % change | 6.0 | 3.9 | 3.6 | 4.7 |
| Bituminous coal | mil.sh.tons | 872 | 965 | 973.3 | 984.1 |
| production | % change | -.1 | 1.5 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3261 | 2358 | 2371.7 | 2426.2 |
| output | % change | .8 | 2.0 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1454.4 | 1871.3 | 1987.3 | 2126.4 |
| p. 7 | % change | 6.0 | 6.8 | 6.2 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
## 1.11 REAL GROWTH

See Table 1.11
Page 5

THE ECONOMY WILL CONTINUE A SIX YEAR GROWTH THROUGH 1988 WITH LESS UNEMPLOYMENT, MORE OUTPUT, SMALLER FEDERAL DEFICIT AND FOREIGN TRADE DEFICIT, AS WELL AS MODERATE INFLATION.

The economy will improve significantly compared to this year's performance:

Key Indicators:

| | 1987 | 1988 |
|---|---|---|
| GNP in 82$ growth rate | +3.0% | +3.7% |
| Unemployment rate | 6.3% | 5.9% |
| Indus. prod. increase | +2.8% | +4.1% |
| Consumer prices increase | +3.2% | +4.0% |
| 3mo. Treasury bills rate | 5.5% | 5.3% |

So--the economic sky won't collapse on President Reagan. On the contrary, the economy in 1988 will accelerate.

KEDI's forecast data for 1989 and beyond are based on the assumption that appropriate economic policies will continue in the next Administration.

KEDI sees NO RECESSION in the foreseeable future. The expansion will not die of old age--only of inappropriate economic policies.

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| + 4.28% | Index Indus. Prod. |
| + 3.84% | GNP |
| + 2.97% | Autos |
| + 2.19% | Private Housing Starts |
| + 1.13% | Capacity Util. |
| - 6.47% | Unemployment |

## TABLE 1.11
## SELECTED INDICATORS I.

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem- ploy ment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 3674.9 | 125.1 | 7.04 | 79.6 | 1.805 | 11.5 |
| 1987:1* | 3739.4 | 126.8 | 6.67 | 80.1 | 1.822 | 9.4 |
| 2 | 3768.7 | 127.4 | 6.23 | 79.9 | 1.769 | 9.2 |
| 3 | 3799.4 | 128.8 | 6.18 | 80.1 | 1.691 | 9.6 |
| 4 | 3836.9 | 131.6 | 6.04 | 80.2 | 1.711 | 9.8 |
| YEAR | 3786.1 | 128.7 | 6.28 | 79.6 | 1.748 | 9.5 |
| % change from '86 | 3.0 | 2.8 | -10.8 | 0.0 | -3.1 | -17.4 |
| 1988:1 | 3858.9 | 132.0 | 6.11 | 80.1 | 1.702 | 9.8 |
| 2 | 3881.1 | 133.5 | 6.04 | 80.5 | 1.742 | 10.2 |
| 3 | 3916.7 | 134.9 | 5.95 | 81.0 | 1.775 | 11.1 |
| 4 | 4053.9 | 135.2 | 5.77 | 81.6 | 1.730 | 10.5 |
| YEAR | 3927.7 | 133.9 | 5.97 | 80.8 | 1.737 | 10.4 |
| % change from '87 | 3.7 | 4.1 | -5.0 | 1.5 | -.6 | 9.5 |
| 1989:1 | 4064.0 | 136.9 | 5.81 | 81.2 | 1.686 | 10.0 |
| 2 | 4085.1 | 137.1 | 5.74 | 81.4 | 1.846 | 10.5 |
| 3 | 4100.1 | 138.1 | 5.62 | 81.8 | 1.880 | 10.8 |
| 4 | 4120.1 | 138.9 | 5.73 | 81.9 | 1.815 | 10.9 |
| YEAR | 4092.3 | 137.8 | 5.72 | 81.6 | 1.807 | 10.6 |
| % change from '88 | 4.2 | 2.9 | -4.1 | 1.0 | 4.0 | 1.4 |

*Historical data.

**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

CONSUMERS HAVE NOT STOPPED SPENDING--ALTOGETHER. FOR THE REST OF 1987 AUTOS WILL BE FLAT, SMALL INCREASES IN OTHER CONSUMER DURABLES, AND CONTINUOUS GROWTH IN CONSUMPTION OF SERVICES.

THE 1988 PICTURE IS BRIGHTER:

- Autos will resume an upward trend.
- Building and home improvements will perform strongly.
- Expect average increases in the nondurables segment, especially for food products, beverages, and gasoline.
- There will be above average increases in apparel, shoes and specialty products.

In 1989, retail sales will slow down but not go flat, while 1990 and beyond shows no downturn or stopping of buying during the forecast period.

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| +15.05% | Pers. Con. Exp. Services |
| +14.95% | Retail Sales Durable |
| + 8.19% | Retail Sales Total |
| + 5.35% | Pers. Con. Exp. Nondurable |
| + 4.20% | Retail Sales Nondurable |
| + 3.26% | Pers. Con. Exp. Durable |

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-** | | | ------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1986* | 388.1 | 932.7 | 1441.7 | 1454.4 | 568.1 | 888.3 |
| 1987:1* | 303.0 | 960.3 | 1587.1 | 1483.2 | 536.4 | 926.8 |
| 2 | 333.8 | 965.4 | 1193.8 | 1515.6 | 557.1 | 958.5 |
| 3 | 364.5 | 978.1 | 1653.7 | 1554.3 | 577.4 | 943.1 |
| 4 | 389.2 | 985.1 | 1709.8 | 1586.2 | 600.3 | 985.9 |
| YEAR | 347.6 | 972.2 | 1536.1 | 1534.8 | 567.8 | 953.6 |
| % change from '86 | -10.4 | 4.2 | 6.5 | 5.5 | -.1 | 7.3 |
| 1988:1 | 384.8 | 998.5 | 1722.2 | 1634.1 | 624.1 | 1010.0 |
| 2 | 405.2 | 1019.1 | 1744.4 | 1643.7 | 638.8 | 1004.9 |
| 3 | 426.3 | 1030.7 | 1780.6 | 1662.1 | 665.1 | 997.0 |
| 4 | 424.3 | 1046.9 | 1979.4 | 1691.2 | 688.3 | 1002.9 |
| YEAR | 410.1 | 1023.8 | 1806.6 | 1657.8 | 654.1 | 1003.7 |
| % change from '87 | 18.0 | 5.3 | 17.6 | 8.0 | 15.2 | 5.3 |
| 1989:1 | 429.5 | 1061.3 | 2052.9 | 1726.0 | 698.4 | 1027.6 |
| 2 | 436.4 | 1076.1 | 2113.6 | 1743.2 | 711.8 | 1031.4 |
| 3 | 446.1 | 1095.8 | 2156.3 | 1759.1 | 727.1 | 1032.0 |
| 4 | 450.4 | 1118.2 | 2267.0 | 1780.2 | 734.5 | 1045.7 |
| YEAR | 440.6 | 1087.8 | 2147.4 | 1752.1 | 718.0 | 1034.2 |
| % change from '88 | 7.4 | 6.3 | 18.9 | 5.7 | 9.8 | 3.0 |

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| + 3.99% | State Local Purch. |
| + 3.84% | GNP |
| + 3.79% | Pers. Cons. Expend. |
| + 3.19% | Federal Govt. Purch. |
| + 1.15% | Gross Private Dom. Inv. |
| -12.09% | Net Exports |

## 1.13 REAL GNP

See Table 1.13
Page 9

THIS YEAR THE GNP IS PREDICTED TO BE 3.0% WITH ACCELERATION IN 1988 TO 3.6%.

This prediction is in line with the majority of forecasters who currently believe in a slow but steady growth path of about 3% for the remainder of this year and next.

KEDI's long-term prediction of GNP calls for some slowing down in 1989 with a return to 3-4% growth in the following years.

Forecast data point to foreign trade as an important factor that will contribute to overall growth.

- Exports of US goods and services are expected to grow at a brisk rate this year and the following years.
- The volume of imports will remain essentially flat.
- Look for significant improvements in trade with Japan, Germany and Great Britain.

## TABLE 1.13
## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *------------Gross National Product---------------- | | | | | * |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1986* | 3674.9 | 2418.7 | 657.2 | -147.8 | 332.2 | 414.6 |
| 1987:1* | 3739.4 | 2438.8 | 686.2 | -133.7 | 325.3 | 424.8 |
| 2* | 3768.7 | 2474.7 | 669.7 | -134.9 | 329.9 | 429.3 |
| 3* | 3799.4 | 2501.3 | 655.3 | -126.3 | 335.9 | 433.2 |
| 4* | 3836.9 | 2518.7 | 660.0 | -121.1 | 340.6 | 438.7 |
| YEAR | 3786.1 | 2483.4 | 667.8 | -129.0 | 332.9 | 431.5 |
| % change from '86 | 3.0 | 2.7 | 1.6 | -12.7 | .2 | 4.1 |
| 1988:1 | 3858.9 | 2527.7 | 668.4 | -119.4 | 342.0 | 440.2 |
| 2 | 3881.1 | 2534.0 | 670.2 | -113.5 | 346.6 | 443.8 |
| 3 | 3916.7 | 2557.6 | 671.4 | -109.6 | 350.1 | 447.2 |
| 4 | 4053.9 | 2687.8 | 675.7 | -114.3 | 354.3 | 450.4 |
| YEAR | 3927.7 | 2576.8 | 671.4 | -114.2 | 348.2 | 445.4 |
| % change from '87 | 3.7 | 3.8 | .5 | -11.5 | 4.6 | 3.2 |
| 1989:1 | 4064.0 | 2690.7 | 676.3 | -115.4 | 357.3 | 455.1 |
| 2 | 4085.1 | 2699.6 | 678.9 | -113.1 | 360.1 | 459.6 |
| 3 | 4100.1 | 2705.5 | 677.8 | -110.0 | 364.4 | 462.4 |
| 4 | 4120.1 | 2716.8 | 680.7 | -112.1 | 369.0 | 465.7 |
| YEAR | 4092.3 | 2715.8 | 678.4 | -112.7 | 350.1 | 460.7 |
| % change from '88 | 4.2 | 5.4 | 1.0 | -1.4 | .5 | 3.4 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

LOOK FOR MODERATE CONSUMER AND BUSINESS INFLATION FOR THE BALANCE OF THIS YEAR WITH A SLIGHT ACCELERATION IN 1988.

* Increases in the international price of oil from the slump of $10-12 in mid 1985 to $18-20 in 1986 has already been absorbed. Further increases of $1-2 will not push up consumer and producer prices significantly.

* So far, the inflationary effects of the decline of the international dollar have been minimal. It is expected that the upward pressures generated by the low value of the dollar will remain modest.

* There are no indications that international prices of crude materials will move significantly upwards in the foreseeable future.

* Actual data of labor contracts concluded and forecast data on expected labor contracts indicate that there will not be strong upward pressure on prices from the labor side.

1987
FORECAST
DATA

Percent Change from June 1987 Forecast

| | |
|---|---|
| + 6.18% | Pers. Cons. Expend. |
| + 5.92% | Producer Price Index |
| + 5.85% | Federal Govt. Purch. |
| + 4.79% | GNP |
| + 4.66% | State Local Purch. |
| + 4.04% | Consumer Price Index |

## TABLE 1.21
## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1986* | 328.4 | 289.6 | 114.5 | 114.2 | 110.2 | 120.1 |
| 1987:1* | 333.9 | 292.0 | 116.4 | 116.9 | 112.2 | 123.1 |
| 2 | 337.9 | 295.2 | 117.5 | 100.7 | 113.5 | 124.5 |
| 3 | 340.1 | 300.8 | 118.7 | 119.8 | 114.8 | 125.6 |
| 4 | 344.2 | 305.2 | 119.9 | 122.4 | 106.7 | 127.2 |
| YEAR | 339.0 | 298.3 | 118.1 | 119.4 | 111.8 | 125.1 |
| % change from '86 | 3.2 | 3.0 | 3.2 | 4.5 | 1.5 | 4.2 |
| 1988:1 | 348.7 | 309.2 | 121.1 | 122.9 | 117.5 | 128.3 |
| 2 | 351.4 | 313.6 | 122.8 | 125.0 | 118.9 | 129.8 |
| 3 | 353.9 | 318.6 | 124.2 | 126.6 | 120.7 | 132.0 |
| 4 | 356.8 | 321.2 | 126.1 | 128.4 | 122.6 | 133.2 |
| YEAR | 352.7 | 315.6 | 123.5 | 125.7 | 119.9 | 130.8 |
| % change from '87 | 4.0 | 5.8 | 4.6 | 5.3 | 7.3 | 4.6 |
| 1989:1 | 361.7 | 325.1 | 128.8 | 131.7 | 125.1 | 134.1 |
| 2 | 365.3 | 329.3 | 131.1 | 134.3 | 127.4 | 136.2 |
| 3 | 369.5 | 334.3 | 133.4 | 136.7 | 129.6 | 138.8 |
| 4 | 375.2 | 339.9 | 136.8 | 141.2 | 131.4 | 141.1 |
| YEAR | 367.9 | 332.1 | 132.5 | 136.0 | 128.4 | 137.6 |
| % change from '88 | 4.3 | 5.2 | 7.3 | 8.1 | 7.0 | 5.1 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| +10.25% | Pers. Cons. Expend. |
| + 9.12% | Federal Govt. Purch. |
| + 8.87% | State Local Purch. |
| + 8.83% | GNP |
| + 1.56% | Gross Private Dom. Inv. |
| + .48% | Net Exports |

THE EXPECTED SLOW DOWN IN THE GROWTH OF GNP IN THE SECOND QUARTER OF THIS YEAR IS ONLY TEMPORARY.

FOR THE SECOND HALF OF THIS YEAR LOOK FOR A RESUMPTION OF GROWTH.

* Consumer spending, representing two thirds of GNP will continue increasing moderately.

* The export-import gap will continue to narrow.

* Government expenditures will continue to increase.

* Business capital formation will keep up at a slow pace.

* Private housing will essentially remain flat.

* Changes in inventories will be flat withsome declines in the third and fourth quarters.

So, four of the six components of GNP that represent approximately 95% of GNP will clearly continue in their upward swing. That translates into moderate gains of GNP throughout the rest of this year and into the next.

### TABLE 1.22
### NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product----------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 4206.1 | 2762.1 | 683.6 | -104.2 | 366.2 | 498.0 |
| 1987:1* | 4352.5 | 2850.4 | 722.2 | -107.9 | 365.0 | 522.8 |
| 2 | 4428.2 | 2493.0 | 704.3 | -114.5 | 374.4 | 534.5 |
| 3 | 4509.9 | 2996.3 | 702.8 | -118.9 | 385.6 | 544.1 |
| 4 | 4600.4 | 3084.1 | 708.2 | -113.3 | 363.4 | 558.0 |
| YEAR | 4472.3 | 2964.6 | 709.4 | -113.7 | 372.1 | 539.9 |
| % change from '86 | 6.3 | 7.3 | 3.8 | 9.1 | 1.6 | 8.4 |
| 1988:1 | 4673.1 | 3105.5 | 711.1 | -110.1 | 401.9 | 564.8 |
| 2 | 4766.0 | 3168.7 | 715.2 | -106.1 | 412.1 | 576.1 |
| 3 | 4864.5 | 3237.6 | 716.5 | -102.4 | 422.6 | 590.3 |
| 4 | 5112.0 | 3450.6 | 727.3 | -100.2 | 434.4 | 599.9 |
| YEAR | 4853.9 | 3240.6 | 717.5 | -104.7 | 417.7 | 582.8 |
| % change from '87 | 8.5 | 9.3 | 1.1 | -7.9 | 12.3 | 7.9 |
| 1989:1 | 5234.4 | 3543.7 | 730.6 | -97.1 | 447.0 | 610.3 |
| 2 | 5355.6 | 3626.1 | 733.8 | -89.1 | 458.8 | 626.0 |
| 3 | 5469.5 | 3698.2 | 739.1 | -81.8 | 472.3 | 641.8 |
| 4 | 5636.3 | 3835.6 | 735.8 | -77.1 | 484.9 | 657.1 |
| YEAR | 5423.4 | 3692.7 | 734.8 | -86.3 | 465.7 | 633.8 |
| % change from '88 | 11.7 | 14.0 | 2.4 | -17.6 | 11.5 | 8.8 |

---

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

### 1987 FORECAST DATA

Percent Change from June 1987 Forecast

| | |
|---|---|
| + 3.50% | Non-Agri. |
| + 3.41% | Total Employed |
| + 2.96% | Civilian Labor Force |
| 0.00% | Agriculture |
| - 1.40% | Population |
| - 6.47% | Unemployment rate |

MAIN INCREASES IN EMPLOYMENT ARE EXPECTED IN SERVICES. A 9 TO 1 RATIO WILL PERSIST WITH 9 OUT OF 10 NEW JOBS GOING TO SERVICES WITH ONLY ONE OUT OF TEN IN THE GOODS PRODUCING SEGMENTS.

Forecast data for the unemployment rate have been reduced slightly compared to the June KEDI forecast This is due mainly to a more optimistic outlook for employment in goods producing industries for the rest of this year and beyond.

In construction, main increases are expected in roads construction and repairs, while private housing will remain essentially flat, and apartment housing will not improve until next year.

Look for an improvement in oil and gas extraction and stone quarrying, with some increases in coal mining.

Forecast data show stabilization in most durable industries, and some increments of nondurable manufacturing, specifically foods, textile and apparel, chemicals, and miscellaneous manufacturers.

### TABLE 1.30
### EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | Employment | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agricult. | Non-agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1986* | 241.5 | 119.5 | 109.6 | 3.2 | 106.4 | 7.04 |
| 1987:1* | 242.9 | 119.3 | 111.2 | 3.2 | 108.1 | 6.67 |
| 2 | 243.8 | 120.1 | 112.6 | 3.1 | 109.5 | 6.23 |
| 3 | 244.6 | 121.2 | 113.7 | 3.1 | 110.6 | 6.18 |
| 4 | 246.3 | 122.4 | 115.0 | 3.1 | 111.9 | 6.04 |
| YEAR | 244.4 | 120.8 | 113.5 | 3.1 | 110.3 | 6.28 |
| % change from '86 | 1.2 | 1.0 | 1.0 | -2.3 | 3.7 | -10.80 |
| 1988:1 | 247.5 | 123.0 | 115.5 | 3.1 | 112.4 | 6.11 |
| 2 | 249.6 | 123.9 | 116.4 | 3.1 | 113.3 | 6.04 |
| 3 | 250.4 | 124.8 | 117.4 | 3.1 | 114.3 | 5.95 |
| 4 | 251.5 | 125.8 | 118.5 | 3.1 | 115.4 | 5.77 |
| YEAR | 249.8 | 124.4 | 117.0 | 3.1 | 113.9 | 5.97 |
| % change from '87 | 2.2 | 3.0 | 3.2 | -.8 | 3.2 | -4.98 |
| 1989:1 | 253.9 | 126.8 | 119.4 | 3.1 | 116.3 | 5.81 |
| 2 | 254.3 | 127.5 | 120.2 | 3.0 | 117.2 | 5.74 |
| 3 | 255.1 | 128.5 | 121.3 | 3.0 | 118.3 | 5.62 |
| 4 | 256.0 | 129.7 | 122.3 | 3.0 | 119.3 | 5.73 |
| YEAR | 254.8 | 128.1 | 120.8 | 3.1 | 117.7 | 5.72 |
| % change from '88 | 2.0 | 3.0 | 3.1 | 0.0 | 3.4 | -4.06 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

MAY HOUSING STARTS DECLINED BY 2.7% COMPARED TO APRIL STARTS FOR THE THIRD CONSECUTIVE DECLINE IN STARTS THIS YEAR.

New home sales dropped in May by 14.9%--the steepest drop since the 19.5% decline in January 1982.

Forecast data indicate that housing activity will continue to decline for the rest of this year with a resumption in growth in 1988.

Expect more activity in multi-family housing next year, especially apartment, while single-family housing starts will only by modest.

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| + 6.36% | 1-Family Unit price New |
| + 4.77% | 1-Family Unit price existing |
| + 2.15% | Single Family Housing Starts |
| + 1.88% | Multiple Family Housing Starts |
| + 1.53% | Permits Issued |
| - 3.97% | Mobile Home Shipments |

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR Unit | Single family housing starts mil. | Multi-family housing starts mil. | Mobile home ship-ments mil. | Permits author-ized mil. | 1-Fam. unit price new** tho. $ | 1-Fam. unit price exist** tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 1.179 | .626 | .244 | 1.769 | 112.2 | 98.3 |
| 1987:1* | 1.293 | .529 | .241 | 1.731 | 120.0 | 99.5 |
| 2 | 1.206 | .563 | .240 | 1.695 | 120.9 | 100.6 |
| 3 | 1.189 | .502 | .239 | 1.670 | 123.7 | 101.2 |
| 4 | 1.166 | .545 | .240 | 1.676 | 124.4 | 102.3 |
| YEAR | 1.214 | .535 | .240 | 1.693 | 122.2 | 100.9 |
| % change from '86 | 2.9 | -14.6 | -1.6 | -4.3 | 9.0 | 2.6 |
| 1988:1 | 1.193 | .509 | .227 | 1.651 | 127.0 | 104.1 |
| 2 | 1.214 | .528 | .251 | 1.682 | 128.1 | 105.6 |
| 3 | 1.242 | .533 | .248 | 1.691 | 130.1 | 108.2 |
| 4 | 1.189 | .541 | .242 | 1.592 | 131.3 | 110.4 |
| YEAR | 1.210 | .528 | .242 | 1.654 | 129.1 | 107.1 |
| % change from '87 | -.3 | -1.3 | .8 | -2.3 | 5.6 | 6.1 |
| 1989:1 | 1.142 | .544 | .237 | 1.564 | 133.0 | 112.0 |
| 2 | 1.248 | .598 | .262 | 1.684 | 134.4 | 113.4 |
| 3 | 1.252 | .628 | .289 | 1.721 | 135.8 | 115.7 |
| 4 | 1.209 | .606 | .298 | 1.765 | 136.8 | 117.9 |
| YEAR | 1.213 | .594 | .271 | 1.683 | 135.0 | 114.8 |
| % change from '88 | .3 | 12.6 | 12.2 | 1.8 | 4.5 | 7.2 |

---

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change from June 1987 Forecast

| | |
|---|---|
| + 7.14% | Imported Car Sales |
| + 4.11% | Shipments |
| + 2.97% | Total Car Sales |
| + 1.37% | Domestic Car Sales |
| 0.00% | Total Light Truck Sales |
| -15.79% | Dealer Inventory |

DESPITE A POTPOURI OF REBATES, PRICES OF CARS IN THE PAST 18 MONTHS HAVE RISEN FASTER THAN AVERAGE FAMILY INCOME.

This May was the worst month in car sales since the recession of May 1982.

Preliminary data for June show a bit of improvement only.

Car sales are definitely on a declining trend for the balance of this year.

One of the reasons for sluggishness in car sales is price.

Ratio of average new car prices to median family income:

1985: 43.8%
1986: 46.9%
1987: 48.3% (predicted)

U.S. automakers plan to cut production by almost 13% for 1987:3.

Demand is switching to light-duty trucks, especially mini-vans and large-size Jeeps. KEDI forecast points to strong market demand for these vehicles throughout the rest of this year and afterwards.

### TABLE 1.42
### AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 11.5 | 8.2 | 3.2 | 1.5 | 7.6 | 3.7 |
| 1987:1* | 9.4 | 6.8 | 2.6 | 1.9 | 7.7 | 3.4 |
| 2 | 9.2 | 6.5 | 2.7 | 1.8 | 7.5 | 3.5 |
| 3 | 9.6 | 6.7 | 2.9 | 1.9 | 7.3 | 3.4 |
| 4 | 9.8 | 6.9 | 2.9 | 1.8 | 7.2 | 3.3 |
| YEAR | 9.5 | 6.7 | 2.8 | 1.8 | 7.4 | 3.4 |
| % change from '86 | -17.4 | -18.0 | -13.3 | 20.0 | -2.3 | -8.1 |
| 1988:1 | 9.8 | 7.0 | 2.8 | 1.8 | 7.4 | 3.3 |
| 2 | 10.2 | 7.3 | 2.9 | 1.7 | 7.5 | 3.4 |
| 3 | 11.1 | 7.9 | 3.2 | 1.7 | 7.9 | 3.6 |
| 4 | 10.5 | 7.4 | 3.1 | 1.6 | 7.6 | 3.3 |
| YEAR | 10.4 | 7.4 | 3.0 | 1.6 | 7.6 | 3.4 |
| % change from '87 | 9.5 | 1.4 | 8.1 | -11.1 | 2.4 | 0.0 |
| 1989:1 | 10.0 | 7.0 | 3.0 | 1.7 | 7.2 | 3.2 |
| 2 | 10.5 | 7.5 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 10.8 | 7.7 | 3.1 | 1.7 | 7.3 | 3.4 |
| 4 | 10.9 | 7.8 | 3.1 | 1.7 | 7.4 | 3.5 |
| YEAR | 10.6 | 7.5 | 3.0 | 1.7 | 7.3 | 3.4 |
| % change from '88 | 1.4 | -.2 | 1.7 | 6.2 | -3.3 | 0.0 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

**BUDGET DEFICIT REDUCTION IS CRITICAL. CONTINUED GOVERNMENT DEMAND FOR MONEY WILL DISPLACE PRIVATE INVESTMENT, PUSH UP INTEREST RATES, FUEL INFLATION AND CONTRIBUTE TO RECESSIONARY DEVELOPMENTS.**

Final estimates of the Federal Budget deficit for 1987:1 recently released by the U.S. Department of Commerce is $170 billion. This is significantly lower than the $200 billion figures in 1986.

KEDI assumes that appropriate policy for reducing the federal deficit will be pursued in the election year and beyond.

Of primary importance now, and in future years, is to reduce foreign borrowing to cover a portion of the deficit.

Dependence on foreign capital has already, in the last months, has resulted in higher interest rates because foreign investors are becoming more and more reluctant to invest in Federal debt.

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| +36.22% | State Local Corp. Tax Accrued |
| +12.35% | Corp. Profit Tax Accrued |
| + 6.75% | Federal Income Tax |
| + 6.73% | State Surplus/ Deficit |
| + 6.46% | State Income Tax |
| - 9.55% | Federal Surplus/ Deficit |

### TABLE 1.50
### FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-----FEDERAL----------- | ----------* | | *---STATE AND LOCAL | ----* | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 361.9 | 83.8 | -203.3 | 152.1 | 19.7 | 63.1 |
| 1987:1* | 375.0 | 105.2 | -170.4 | 158.0 | 23.6 | 50.2 |
| 2 | 395.2 | 108.7 | -168.9 | 163.5 | 24.7 | 52.5 |
| 3 | 401.1 | 112.1 | -166.5 | 166.4 | 26.2 | 54.0 |
| 4 | 402.0 | 115.7 | -164.3 | 169.2 | 28.1 | 56.4 |
| YEAR | 393.3 | 110.4 | -167.5 | 164.3 | 25.6 | 53.3 |
| % change from '86 | 8.7 | 31.8 | -17.6 | 8.0 | 30.2 | -15.6 |
| 1988:1 | 408.1 | 117.2 | -160.1 | 170.1 | 30.4 | 57.1 |
| 2 | 416.7 | 120.5 | -157.2 | 173.4 | 32.3 | 59.7 |
| 3 | 422.9 | 121.8 | -150.1 | 177.5 | 34.8 | 60.2 |
| 4 | 428.7 | 123.9 | -146.2 | 180.8 | 36.0 | 62.5 |
| YEAR | 419.1 | 120.8 | -153.4 | 175.4 | 33.4 | 59.9 |
| % change from '87 | 6.6 | 9.4 | -8.4 | 6.8 | 30.1 | 12.4 |
| 1989:1 | 437.1 | 125.8 | -142.1 | 183.9 | 37.4 | 63.1 |
| 2 | 444.0 | 128.4 | -140.3 | 185.2 | 39.7 | 65.2 |
| 3 | 449.6 | 130.6 | -133.2 | 187.4 | 41.5 | 66.3 |
| 4 | 455.8 | 133.1 | -130.1 | 190.1 | 42.0 | 67.8 |
| YEAR | 446.6 | 129.5 | -136.4 | 186.7 | 40.1 | 65.6 |
| % change from '88 | 6.6 | 7.1 | -11.1 | 6.4 | 20.3 | 9.6 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

### 1987 FORECAST DATA

Percent Change from June 1987 Forecast

| | |
|---|---|
| +12.96% | Personal Savings |
| +12.35% | Corp. After Tax Profit |
| +10.17% | Personal Disp. Income |
| + 9.57% | Personal Income |
| + 8.28% | Comp. of Employees |
| + 2.36% | Average Weekly Earnings |

KEDI FORECAST DATA POINT TO APPROXIMATELY 13% GROWTH OF EARNINGS THIS YEAR AND 15% GROWTH IN 1988 OVER 1987.

Most industries will record significant gains.

Largest gains are forecasted for airlines, financial services, banking, non ferrous metals, biotechnology, insurance, textiles, apparel, electronics, forest products, machinery, rubber and plastics.

Average earnings growth are predicted for food and kindred products, coal, building materials and related products, electronics, aerospace, railroads, paper and products, chemicals, retail trade, oil and oil-related industries, and farm machinery.

Less than average growth of earnings is forecast for ferrous metals, trucking, tools and hardware, automotive manufacturing, stone and glass products and primary metals.

## TABLE 1.60
## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1986* | 3485.7 | 2971.6 | 2498.0 | 134.0 | 114.2 | 382.0 |
| 1987:1* | 3587.9 | 3054.9 | 2567.3 | 150.2 | 106.5 | 391.2 |
| 2 | 3614.9 | 3056.2 | 2612.6 | 158.7 | 113.2 | 403.0 |
| 3 | 3679.4 | 3111.9 | 2667.4 | 165.9 | 115.6 | 405.2 |
| 4 | 3774.2 | 3203.0 | 2723.2 | 170.2 | 118.9 | 407.3 |
| YEAR | 3664.1 | 3106.5 | 2642.6 | 161.2 | 113.5 | 401.7 |
| % change from '86 | 5.1 | 4.5 | 5.8 | 20.3 | -.6 | 5.2 |
| 1988:1 | 3910.2 | 3332.0 | 2768.7 | 173.2 | 121.5 | 409.1 |
| 2 | 3989.4 | 3399.3 | 2799.2 | 179.6 | 124.6 | 412.6 |
| 3 | 4068.4 | 3468.0 | 2963.5 | 183.5 | 123.5 | 416.9 |
| 4 | 4291.3 | 3681.8 | 2901.5 | 189.5 | 123.8 | 419.2 |
| YEAR | 4064.8 | 3470.3 | 2858.2 | 181.4 | 123.3 | 414.4 |
| % change from '87 | 10.9 | 11.7 | 8.2 | 12.5 | 8.6 | 3.2 |
| 1989:1 | 4397.1 | 3776.1 | 2945.3 | 194.6 | 124.3 | 421.8 |
| 2 | 4492.7 | 3863.5 | 2994.1 | 198.4 | 128.5 | 424.5 |
| 3 | 4576.6 | 3939.6 | 3031.6 | 199.2 | 131.8 | 427.2 |
| 4 | 4726.9 | 4081.0 | 3092.7 | 204.3 | 135.1 | 428.6 |
| YEAR | 4548.3 | 3915.0 | 3015.9 | 199.1 | 129.9 | 425.5 |
| % change from '88 | 11.9 | 12.8 | 5.5 | 9.7 | 5.3 | 2.7 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

THE FED WILL NOT HAVE TO GENERATE AS MUCH MONEY AS IN THE PAST AS THE FEDERAL DEFICIT CONTINUES TO DECLINE AND THE TRADE IMBALANCE CONTINUES TO IMPROVE.

The growth of monetary aggregates is expected to slow down somewhat for the rest of this year and afterwards.

There is a direct relationship, in this phase of the cycle, between money supply M1 and Federal deficit and balance of trade. A smaller Federal deficit means smaller imbalance in trade which, in turn requires less new money paid abroad and recirculated back to cover the Federal deficit.

Forecast of credit aggregates calls for slowing down in consumer and mortgage credit in the rest of this year, and acceleration in 1988 due to expected higher demand for financing car sales and housing.

1987
FORECAST
DATA

Percent Change
from
June 1987
Forecast

| | |
|---|---|
| + 9.26% | Time Deposits |
| + 7.69% | Consumer Install. Credit |
| + 6.83% | Consumer & Demand Deposits |
| + 3.10% | Comm. & Indust. Loans at Banks |
| + 2.27% | Large Denom. Time Deposits |
| + 1.04% | Mortg. at S & L Assns. |

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDI-CATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2,s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 673.2 | 2681.8 | 577.8 | 517.6 | 447.6 | 553.1 |
| 1987:1* | 738.2 | 2826.7 | 581.6 | 520.4 | 450.1 | 569.4 |
| 2 | 738.3 | 2888.3 | 586.9 | 525.7 | 448.7 | 570.1 |
| 3 | 745.8 | 2956.1 | 598.7 | 531.6 | 446.5 | 571.1 |
| 4 | 758.7 | 3015.5 | 615.3 | 547.6 | 442.3 | 573.6 |
| YEAR | 745.2 | 2921.7 | 615.3 | 547.6 | 442.3 | 573.6 |
| % change from '86 | 10.7 | 8.9 | 6.5 | 5.3 | -1.2 | 3.7 |
| 1988:1 | 768.2 | 3080.7 | 620.1 | 550.4 | 445.1 | 574.4 |
| 2 | 787.1 | 3146.4 | 630.9 | 552.0 | 448.1 | 576.3 |
| 3 | 805.2 | 3220.4 | 642.5 | 557.6 | 449.4 | 578.2 |
| 4 | 826.1 | 3300.2 | 662.3 | 565.0 | 450.6 | 581.1 |
| YEAR | 796.7 | 3186.9 | 662.3 | 565.0 | 450.6 | 581.1 |
| % change from '87 | 6.9 | 9.1 | 7.6 | 3.2 | 1.9 | 1.3 |
| 1989:1 | 837.1 | 3374.4 | 681.5 | 567.7 | 452.1 | 590.3 |
| 2 | 884.2 | 3425.5 | 694.4 | 570.0 | 454.8 | 605.2 |
| 3 | 906.0 | 3496.7 | 718.7 | 573.6 | 456.6 | 619.7 |
| 4 | 918.4 | 3655.5 | 737.3 | 577.4 | 460.3 | 628.5 |
| YEAR | 886.4 | 3488.0 | 737.3 | 577.2 | 460.3 | 628.5 |
| % change from '88 | 11.3 | 9.4 | 11.3 | 2.2 | 2.2 | 8.2 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

EXPECT INTEREST RATES TO REMAIN AT PRESENT LEVELS FOR THE BALANCE OF THIS YEAR. THEY WILL DECLINE A BIT IN 1988 AND INCREASE SLIGHTLY NEAR THE END OF 1988 AND DURING 1989.

Long-term interest rates on bonds are expected to remain stable--no further increaes are expected. Forecast data on short-term interest are also positive--expect some slight declines in 1988.

KEDI assumes that the Federal Reserve will continue pursuing the policy of low interest rates.

### 1987 FORECAST DATA

Percent Change from June 1987 Forecast

| | |
|---|---|
| +16.39% | S & P's 500 Avg. |
| + .10% | Conv. Mortg. Rate |
| - 2.88% | 20 yr. Govt. Bonds Yield |
| - 3.00% | Aaa Corp. Bond Rate |
| - 4.82% | Prime Rate |
| - 5.58% | Treas. Bills 3 mo. Yield |

### TABLE 1.80
### INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 20 yr. Govt. bonds yield | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | |
| Year & Qtr. | | | | | | |
| 1986* | 5.97 | 8.33 | 9.82 | 9.02 | 7.85 | 236.34 |
| 1987:1* | 5.36 | 8.50 | 9.15 | 8.78 | 7.56 | 76.40 |
| 2 | 5.61 | 8.42 | 9.94 | 8.91 | 7.87 | 316.20 |
| 3 | 5.60 | 8.25 | 10.14 | 8.83 | 7.80 | 319.21 |
| 4 | 5.52 | 8.25 | 10.02 | 8.78 | 7.64 | 322.54 |
| YEAR | 5.52 | 8.36 | 9.81 | 8.82 | 7.72 | 258.59 |
| % change from '86 | -7.5 | .3 | -.1 | -2.2 | -1.7 | 9.4 |
| 1988:1 | 5.46 | 8.25 | 9.98 | 8.72 | 7.56 | 326.71 |
| 2 | 5.31 | 8.00 | 9.87 | 8.68 | 7.46 | 337.42 |
| 3 | 5.22 | 8.14 | 9.65 | 8.60 | 7.50 | 348.92 |
| 4 | 5.16 | 8.20 | 9.70 | 8.65 | 7.82 | 356.71 |
| YEAR | 5.29 | 8.15 | 9.80 | 8.66 | 7.58 | 342.44 |
| % change from '87 | -4.3 | -2.5 | -.1 | -1.8 | -1.7 | 32.4 |
| 1989:1 | 5.18 | 8.25 | 9.84 | 7.80 | 7.84 | 358.27 |
| 2 | 5.28 | 8.25 | 9.63 | 8.58 | 8.02 | 360.41 |
| 3 | 5.74 | 8.50 | 9.53 | 8.46 | 8.06 | 357.22 |
| 4 | 5.79 | 8.50 | 9.85 | 8.59 | 7.93 | 351.54 |
| YEAR | 5.50 | 8.38 | 9.71 | 8.36 | 7.96 | 356.86 |
| % change from '88 | 4.0 | 2.8 | -.9 | -3.5 | 5.0 | 4.2 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Federal Government Expenditures has been selected for comparison. Actual number is in the Survey of Current Business, May 1987 issue, Table 1.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS
State and Local Governments Expenditures (bil.$)
Actual figure: 498.0

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy percent difference |
|---|---|---|---|
| Manufacturers Hanover Trust Co., p. 45 | 12/85 | 530.9 | +6.6 |
| UCLA Business Forecasting Project, p. 46 | 12/85 | 535.5 | +7.5 |
| The Equitable Life Assurance Society of the U.S., p. 48 | 12/4/85 | 526.0 | +5.6 |
| Research Seminar in Quantitative Economics, p. 49 | 12/12/85 | 528.0 | +6.2 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 499.5 | + .3 |
| Standard & Poor's Corp., p. 58 | 1/16/86 | 528.7 | +6.2 |
| Money Market Services, Inc., p. 64 | 1/27/86 | 501.9 | + .8 |
| Georgia State Univ., p. 66 | 2/86 | 495.9 | - .4 |
| KEDI, Inc., p. 67 | 2/1/86 | 494.0 | - .8 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
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| | Domestic | SCB, Blue pages |
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| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
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| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
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| | Personal saving | SCB, Table 2.1 |
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9/16/87 P4950-1A

# KEDI ECONOMIC SURVEY

August 1, 1987

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SOURCES:

U.S.Department of Commerce first estimate of 1987:2, National Income and Product data, July 20,1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, July 1987.

The latest available data on prices, employment, industrial and financial developments.

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

Indicators of economic activity for June and early July continue to point to a solid growth of the economy for the months ahead.

### Prices

The outlook for oil and gasoline prices is optimistic unless unpredictable extraordinary events take place.

### Employment & Labor

Recent data confirm the trend of increasing employment and decreasing number of unemployed persons.

### Housing

Recent data indicate that the decline in housing activity that started in April is leveling off.

### Automobiles

Compared to the previous forecast, data on car sales and factory shipments for this year have increased a bit.

### Budgets

Budgets do not really call for additional taxation as long as Congress abstains from excessive spending proposals.

### Income

There are no signs of a slowdown or negative growth. Look for steady growth the rest of this year and 1988.

### Money & Credit

Look for rapid growth of M1, some slowing down of M2 and M3 and resumption of growth of large negotiable CDs.

### Interest Rates, Yields & Securities Prices

Interest rates will stabilize at present levels throughout this year and will decline to slightly lower levels for most of 1988.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1989. | October 1986 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the July 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1986 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3674.9 | 4221.9 | 4323.2 | 4435.6 |
| product, p. 5 | % change | 2.5 | 3.1 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 125.1 | 142.0 | 146.5 | 151.5 |
| prod., p. 5 | % change | 1.0 | 3.1 | 3.2 | 3.4 |
| Capacity | % | 79.6 | 81.9 | 81.1 | 80.3 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 5.6 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | -1.2 | 1.1 | -.9 |
| Private housing | mil.units | 1.8 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | -4.2 | 3.6 | -2.4 | 3.5 |
| Car sales, | mil.units | 11.5 | 10.9 | 11.0 | 11.4 |
| p. 5 | % change | 3.2 | 2.9 | 1.0 | 4.0 |
| Implicit GNP | 1982=100 | 114.5 | 134.6 | 139.4 | 144.6 |
| price def.,p.11 | % change | 2.6 | 3.5 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 328.4 | 381.5 | 393.4 | 407.5 |
| Index, p. 11 | % change | 1.9 | 3.7 | 3.1 | 3.6 |
| Prod.Price Index | 1967=100 | 289.6 | 346.4 | 362.0 | 375.7 |
| (fin.goods),p.11 | % change | -1.6 | 4.2 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -203.3 | -117.2 | -94.8 | -76.2 |
| p. 21 | % change | 3.2 | -13.6 | -19.1 | -19.7 |
| Personal Income | bil. $ | 3485.7 | 4875.8 | 5202.5 | 5592.7 |
| p. 23 | % change | 5.3 | 6.9 | 6.7 | 7.5 |
| Prime Rate | % | 8.3 | 8.1 | 8.9 | 9.6 |
| p. 27 | % change | -11.6 | -4.5 | 9.1 | 8.6 |
| Mortgage Rate | % | 9.8 | 10.3 | 10.0 | 10.2 |
| p. 27 | % change | -11.7 | 5.9 | -2.7 | 1.8 |
| Currency+demand | bil. $ | 673.2 | 903.2 | 964.6 | 1027.3 |
| deposits , p. 25 | % change | 13.4 | 7.3 | 6.8 | 6.5 |
| Commercial+ind. | bil. $ | 517.6 | 596.3 | 613.6 | 626.5 |
| loans, p. 25 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 87.4 | 90.2 | 90.8 | 91.3 |
| production | % change | -.1 | .4 | .9 | .4 |
| Electric power | mil.kw-hr | 2614 | 3355 | 3342.8 | 3499.6 |
| production | % change | 6.0 | 3.9 | 3.6 | 4.7 |
| Bituminous coal | mil.sh.tons | 872 | 951 | 973.3 | 984.1 |
| production | % change | -.1 | 1.4 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3261 | 2361 | 2371.7 | 2426.2 |
| output | % change | .8 | 2.1 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1454.4 | 1877.9 | 1994.4 | 2134.0 |
| p. 7 | % change | 6.0 | 6.9 | 6.2 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

1987
FORECAST
DATA

Percent Change from July 1987 Forecast

| | |
|---|---|
| + 2.74% | Private Housing Starts |
| + .60% | GNP |
| + .34% | Index Indus. Prod. |
| + .25% | Capacity Util. |
| + .24% | Autos |
| - 2.93% | Unemployment |

## 1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES
## 1.11 REAL GROWTH

See Table 1.11
Page 5

INDICATORS OF ECONOMIC ACTIVITY FOR JUNE AND EARLY JULY CONTINUE TO POINT TO A SOLID GROWTH OF THE ECONOMY FOR THE MONTHS AHEAD.

Index of Leading Indicators:
May 188.9 June 190.4

Factory Shipments: April 195.96 bil.$ S.A.
May 196.39 bil.$ S.A.
June 197.14 bil.$ S.A.

New Orders in Manufacturing:
May 201.40 bil.$ S.A.
June 204.82 bil.$.S.A.

Unfilled Orders in Manufacturing:
May 380.35 bil.$ S.A.
June 384.63 bil.$ S.A.

Index of Industrial Production:
May 128.0 (1977=100)
June 128.2

These data indicate that the economy continues growing DESPITE weaknesses in automobiles, housing, and sluggish consumer demand.

This means that there is a broad base for future growth and a majority of industries perform well and will continue to improve further.

NO RECESSION THIS YEAR OR NEXT!

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR<br>Unit | GNP<br>$82 bil. | Index of ind. prod**<br>1977=100 | Unem-ployment<br>% | Capacity util'n rate**<br>% | Private housing starts<br>mil. | Auto sales<br>mil. |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 3674.9 | 125.1 | 7.04 | 79.6 | 1.805 | 11.5 |
| 1987:1* | 3739.4 | 126.8 | 6.67 | 80.1 | 1.822 | 9.4 |
| 2 | 3796.5 | 127.8 | 6.23 | 80.2 | 1.761 | 9.5 |
| 3 | 3829.6 | 129.1 | 5.98 | 80.3 | 1.684 | 9.9 |
| 4 | 3856.7 | 131.7 | 5.94 | 80.3 | 1.706 | 9.8 |
| YEAR | 3805.6 | 128.8 | 6.21 | 79.6 | 1.743 | 9.7 |
| % change from '86 | 3.6 | 3.0 | -11.9 | 0.0 | -3.4 | -16.1 |
| 1988:1 | 3883.9 | 132.4 | 6.01 | 80.2 | 1.707 | 9.8 |
| 2 | 3902.2 | 133.9 | 5.84 | 80.5 | 1.749 | 10.2 |
| 3 | 3939.7 | 135.5 | 5.71 | 81.4 | 1.785 | 11.1 |
| 4 | 4078.9 | 135.6 | 5.62 | 81.9 | 1.745 | 10.6 |
| YEAR | 3951.2 | 134.3 | 5.79 | 81.0 | 1.747 | 10.4 |
| % change from '87 | 3.8 | 4.3 | -6.6 | 1.8 | .2 | 8.0 |
| 1989:1 | 4076.1 | 136.8 | 5.71 | 81.8 | 1.684 | 10.0 |
| 2 | 4087.2 | 137.1 | 5.74 | 81.8 | 1.838 | 10.5 |
| 3 | 4100.3 | 138.0 | 5.62 | 81.7 | 1.871 | 10.8 |
| 4 | 4116.1 | 138.9 | 5.73 | 81.9 | 1.803 | 10.9 |
| YEAR | 4094.9 | 137.7 | 5.70 | 81.8 | 1.799 | 10.6 |
| % change from '88 | 3.6 | 2.5 | -1.6 | 1.0 | 3.0 | 1.2 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987
FORECAST
DATA

Percent Change from July 1987 Forecast

| | |
|---|---|
| + 1.88% | Pers. Con. Exp. Durable |
| + .19% | Pers. Con. Exp. Services |
| 0.00% | Retail Sales Nondurable |
| 0.00% | Retail Sales Durable |
| - .11& | Retail Sales Total |
| - .19% | Retail Sales Durable |

LOOK FOR MODERATE GROWTH IN CONSUMER SPENDING FOR THE BALANCE OF THIS YEAR WITH WEAKNESS IN SPENDING ON DURABLES, AND FLAT GROWTH IN SPENDING ON NONDURABLES.

In 1988 a more proportionate growth is expected in spending on main categories of durables, namely automobiles and parts. Household durables will be back on track and stronger than this year's purchases of non-durables, mainly food and apparel are prediced.

Major factors that will influence increases in consumer spending in 1988:

* Continuous growth of the number of employed persons--more purchasing power.
* Rapid increase in consumer credit, after the slowdown this year.
* Low interest rates on consumer loans.
* Only slight increases in prices of energy--not as large as this year.

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-** | | | ------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1986* | 388.1 | 932.7 | 1441.7 | 1454.4 | 568.1 | 888.3 |
| 1987:1* | 303.0 | 960.3 | 1587.1 | 1483.2 | 536.4 | 926.8 |
| 2 | 409.7 | 977.0 | 1557.3 | 1515.6 | 557.1 | 958.5 |
| 3 | 386.5 | 989.1 | 1645.6 | 1554.3 | 577.5 | 976.8 |
| 4 | 414.3 | 995.7 | 1695.2 | 1586.2 | 600.3 | 985.9 |
| YEAR | 378.4 | 980.5 | 1621.3 | 1534.8 | 567.8 | 962.0 |
| % change from '86 | -2.5 | 5.1 | 12.5 | 5.5 | -.0 | 8.3 |
| 1988:1 | 404.8 | 998.5 | 1727.2 | 1634.1 | 624.1 | 1010.0 |
| 2 | 415.2 | 1019.1 | 1751.8 | 1640.2 | 638.8 | 1001.4 |
| 3 | 426.9 | 1030.7 | 1789.8 | 1662.1 | 665.1 | 997.0 |
| 4 | 424.3 | 1046.9 | 1971.7 | 1687.2 | 688.3 | 998.9 |
| YEAR | 417.8 | 1023.8 | 1810.1 | 1655.9 | 654.1 | 1001.8 |
| % change from '87 | 10.4 | 4.4 | 11.6 | 7.9 | 15.2 | 4.1 |
| 1989:1 | 429.5 | 1061.3 | 2007.9 | 1737.2 | 698.4 | 1038.8 |
| 2 | 436.4 | 1076.1 | 1828.3 | 1750.2 | 711.8 | 1038.4 |
| 3 | 446.1 | 1095.8 | 2157.2 | 1759.1 | 727.1 | 1032.0 |
| 4 | 450.4 | 1118.2 | 2071.3 | 1780.4 | 734.5 | 1045.9 |
| YEAR | 440.6 | 1087.8 | 2016.2 | 1756.7 | 718.0 | 1038.8 |
| % change from '88 | 5.5 | 6.3 | 11.4 | 6.1 | 9.8 | 3.7 |

## 1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| + .91% | Pers. Cons. Expend. |
| + .60% | GNP |
| + .46% | Net Exports |
| + .44% | State Local Purch. |
| + .37% | Gross Private Dom. Inv. |
| - 1.12% | Federal Govt. Purch. |

THE MOST POSITIVE NUMBER IN THE U. S. DEPARTMENT OF COMMERCE ESTIMATE OF THE 1987:2 NOMINAL GNP IS NET EXPORTS: 108.6 BIL. $ OR JUST $.7 BIL. INCREASE OVER 1987:1. THAT IS A NEGLIGIBLE INCREASE.

The main factor causing the negative balance of trade is oil and amounts of imported oil. Amounts of imported oil are increasing and so are prices. That drives the U.S. balance of trade into the red despite increasing exports and leveling off of non-oil imports.

Forecast data on imports of oil show that the share of imported oil on total U.S. oil consumption will remain essentially unchanged in the foreseeable future. Unless U.S. exports increase dramatically, which is unlikely, the foreign trade gap will persist with very small decrements.

# TABLE 1.13
## REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product | | | | | ---------------* |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1986* | 3674.9 | 2418.7 | 657.2 | -147.8 | 332.2 | 414.6 |
| 1987:1* | 3739.4 | 2438.8 | 686.2 | -133.7 | 325.3 | 424.8 |
| 2 | 3796.5 | 2488.7 | 673.4 | -127.8 | 326.3 | 435.9 |
| 3 | 3829.6 | 2532.8 | 658.7 | -129.3 | 330.2 | 437.2 |
| 4 | 3856.7 | 2541.0 | 662.0 | -121.1 | 334.6 | 440.2 |
| YEAR | 3805.6 | 2500.3 | 670.1 | -128.0 | 329.1 | 434.5 |
| % change from '86 | 3.6 | 3.4 | 2.0 | -13.4 | -.9 | 4.8 |
| 1988:1 | 3883.9 | 2552.7 | 670.3 | -120.3 | 338.1 | 443.1 |
| 2 | 3902.2 | 2557.2 | 672.2 | -115.6 | 342.6 | 445.8 |
| 3 | 3939.7 | 2579.5 | 674.4 | -109.6 | 346.2 | 449.2 |
| 4 | 4078.9 | 2712.1 | 678.6 | -113.4 | 350.3 | 451.3 |
| YEAR | 3951.2 | 2600.4 | 673.9 | -114.7 | 344.3 | 447.4 |
| % change from '87 | 3.8 | 4.0 | .6 | -10.4 | 4.6 | 3.0 |
| 1989:1 | 4076.1 | 2702.9 | 680.2 | -115.2 | 353.1 | 455.1 |
| 2 | 4087.2 | 2703.1 | 681.9 | -113.6 | 356.1 | 459.7 |
| 3 | 4100.3 | 2711.9 | 676.2 | -110.1 | 359.4 | 462.9 |
| 4 | 4116.1 | 2720.8 | 679.5 | -112.1 | 362.0 | 465.9 |
| YEAR | 4094.9 | 2717.2 | 679.5 | -112.8 | 350.1 | 460.9 |
| % change from '88 | 3.6 | 4.5 | .8 | -1.7 | 1.7 | 3.0 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| + .07% | Consumer Price Index |
| + .07% | Producer Price Index |
| + .02% | State Local Purch. |
| - .38% | GNP |
| - 1.63% | Federal Govt. Purch. |
| - .54% | Pers. Cons. Expend. |

CONSUMER PRICES: KEDI maintains the forecast of moderate price increases for the balance of this year and next. Historical data for 1987 and forecast data show that the main factors that influence the CPI are prices of energy (oil and gasoline), food, and services.

The outlook for oil and gasoline prices is optimistic unless unpredictable extraordinary events take place. Thus, the major increases in oil prices are over.

Prediction of food prices is for moderate increases only.

PRICES OF SERVICES will push upward. KEDI forecast shows approximately 6% increase this year over 1986 and 6.5% in 1988 over 1987.

PRODUCER PRICES will have no inflationary increases. PPI (finished goods) increases in past months over previous months:

| | |
|---|---|
| April | +.7% |
| May | +.3% |
| June | +.1% |

This indicates that there will be no strong upward push to consumer prices from the producer price side.

### TABLE 1.21
### PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| | *---Indexes--* | | *-------Price deflators--------* | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. | | | | | | |
| 1986* | 328.4 | 289.6 | 114.5 | 114.2 | 110.2 | 120.1 |
| 1987:1* | 333.9 | 292.0 | 116.4 | 116.9 | 112.2 | 123.1 |
| 2 | 337.9 | 295.2 | 117.2 | 100.2 | 113.9 | 123.7 |
| 3 | 340.2 | 301.8 | 118.4 | 119.3 | 114.8 | 125.6 |
| 4 | 344.5 | 305.4 | 119.7 | 122.2 | 106.7 | 127.2 |
| YEAR | 339.1 | 298.6 | 117.9 | 119.2 | 111.9 | 124.9 |
| % change from '86 | 3.3 | 3.1 | 3.0 | 4.4 | 1.5 | 4.0 |
| 1988:1 | 348.9 | 309.2 | 121.0 | 122.6 | 117.5 | 128.3 |
| 2 | 351.6 | 313.6 | 122.5 | 124.6 | 118.5 | 129.8 |
| 3 | 354.1 | 318.9 | 123.6 | 125.9 | 119.7 | 132.0 |
| 4 | 357.2 | 321.6 | 125.0 | 126.9 | 121.6 | 133.2 |
| YEAR | 352.9 | 315.8 | 123.0 | 125.0 | 119.3 | 130.8 |
| % change from '87 | 4.1 | 5.8 | 4.3 | 4.9 | 6.6 | 4.7 |
| 1989:1 | 361.7 | 325.1 | 127.0 | 129.4 | 123.1 | 134.1 |
| 2 | 365.3 | 329.8 | 128.1 | 123.6 | 125.2 | 136.2 |
| 3 | 369.5 | 334.9 | 133.1 | 136.4 | 127.6 | 138.8 |
| 4 | 375.2 | 339.9 | 131.8 | 133.8 | 129.7 | 141.1 |
| YEAR | 367.9 | 332.4 | 130.0 | 130.8 | 126.4 | 137.6 |
| % change from '88 | 4.2 | 5.3 | 5.7 | 4.6 | 5.9 | 5.1 |

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Chan[illegible]
from
July 1987
Forecast

| | |
|---|---|
| + .43% | State Local Purch. |
| + .34% | Pers. Cons. Expend. |
| + .17% | GNP |
| + .38% | Gross. Private Dom. Inv. |
| + .05% | Net Exports |
| - 1.63% | Federal Govt. Purch. |

U. S. DEPARTMENT OF COMMERCE FIRST ESTIMATE OF THE 1987:2 NOMINAL GNP SHOWS A SEASONALLY ADJUSTED INCREASE OF ABOUT $100 BIL. OVER 1987:1. This increment point to approximately 6.5% growth this year compared to 1986. KEDI's forecast coincides with the GNP 1987 forecast recently released by the Federal Reserve System that calls for 6.25-7% increase. KEDI's forecast for 7.1% nominal GNP in 1988 differs slightly from that of the Fed's 5.75-7%

## TABLE 1.22
## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

|  | *-----------Gross National Product |  |  |  |  | ---------------* |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. |  |  |  |  |  |  |
| 1986* | 4206.1 | 2762.1 | 683.6 | -104.2 | 366.2 | 498.0 |
| 1987:1* | 4352.5 | 2850.4 | 722.2 | -107.9 | 365.0 | 522.8 |
| 2 | 4448.9 | 2944.0 | 702.3 | -108.6 | 371.8 | 539.4 |
| 3 | 4534.2 | 3021.2 | 702.8 | -117.9 | 379.1 | 549.1 |
| 4 | 4616.5 | 3105.2 | 708.6 | -114.3 | 357.0 | 559.9 |
| YEAR | 4487.7 | 2987.6 | 709.0 | -112.2 | 368.2 | 542.8 |
| % change from '86 | 6.7 | 8.2 | 3.7 | 7.7 | .6 | 9.0 |
| 1988:1 | 4699.5 | 3130.5 | 713.4 | -110.1 | 397.3 | 568.5 |
| 2 | 4780.2 | 3186.1 | 715.9 | -106.4 | 406.0 | 578.6 |
| 3 | 4869.5 | 3247.4 | 717.1 | -102.4 | 414.4 | 592.9 |
| 4 | 5098.6 | 3442.9 | 728.7 | -100.1 | 426.0 | 601.1 |
| YEAR | 4862.0 | 3251.7 | 718.8 | -104.8 | 410.9 | 585.3 |
| % change from '87 | 8.3 | 8.8 | 1.4 | -6.6 | 11.6 | 7.8 |
| 1989:1 | 5176.6 | 3498.7 | 730.6 | -97.6 | 434.7 | 610.3 |
| 2 | 5235.7 | 3340.8 | 733.8 | 89.2 | 445.8 | 626.1 |
| 3 | 5457.5 | 3699.1 | 739.1 | -81.8 | 458.6 | 642.5 |
| 4 | 5425.0 | 3639.9 | 735.8 | -77.6 | 469.5 | 657.4 |
| YEAR | 5323.4 | 3554.2 | 734.8 | -41.9 | 452.2 | 634.1 |
| % change from '88 | 9.5 | 9.3 | 2.2 | -60.0 | 10.0 | 8.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

RECENT DATA CONFIRM THE TREND OF INCREASING EMPLOYMENT AND DECREASING NUMBER OF UNEMPLOYED PERSONS.

Increases in number of employed persons (non-farm payroll, seasonally adjusted--thousands):

| | |
|---|---|
| April | +178 |
| May | +126 |
| June | +103 |
| July (expected) | +300 |

KEDI forecast of employment is optimistic. Data indicate a continuous, slow decline of unemployment for the rest of this year and throughout 1988.

Compared to forecast recently released by the Federal Reserve System, KEDI's data are more optimistic:

Unemployment Rate
Percent, year averages

| | 1987 | 1988 |
|---|---|---|
| Federal Reserve | 6.2-6.4 | 6.0-6.5 |
| KEDI | 6.2 | 5.81 |

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| + .15% | Non-Agri. |
| + .14% | Total Employed |
| 0.00% | Agriculture |
| - .02% | Population |
| - .02% | Civilian Labor Force |
| - 2.93% | Unemployment rate |

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *-------Employment-------* | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agricult. | Non-agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1986* | 241.5 | 119.5 | 109.6 | 3.2 | 106.4 | 7.04 |
| 1987:1* | 242.9 | 119.3 | 111.2 | 3.2 | 108.1 | 6.67 |
| 2 | 243.8 | 120.1 | 112.6 | 3.1 | 109.5 | 6.23 |
| 3 | 244.6 | 121.2 | 114.0 | 3.1 | 110.9 | 5.98 |
| 4 | 246.3 | 122.4 | 115.1 | 3.1 | 112.0 | 5.94 |
| YEAR | 244.4 | 120.8 | 113.7 | 3.1 | 110.6 | 6.21 |
| % change from '86 | 1.2 | 1.0 | 1.0 | -2.3 | 3.9 | -11.86 |
| 1988:1 | 247.5 | 123.0 | 115.6 | 3.1 | 112.5 | 6.01 |
| 2 | 249.6 | 123.9 | 116.7 | 3.1 | 113.6 | 5.84 |
| 3 | 250.4 | 124.8 | 117.7 | 3.1 | 114.6 | 5.71 |
| 4 | 251.5 | 125.8 | 118.7 | 3.1 | 115.6 | 5.62 |
| YEAR | 249.8 | 124.4 | 117.2 | 3.1 | 114.1 | 5.79 |
| % change from '87 | 2.2 | 3.0 | 3.2 | -.8 | 3.2 | -6.61 |
| 1989:1 | 253.9 | 126.8 | 119.6 | 3.1 | 116.5 | 5.71 |
| 2 | 254.3 | 127.5 | 120.2 | 3.0 | 117.2 | 5.74 |
| 3 | 255.1 | 128.5 | 121.3 | 3.0 | 118.3 | 5.62 |
| 4 | 256.0 | 129.7 | 122.3 | 3.0 | 119.3 | 5.73 |
| YEAR | 254.8 | 128.1 | 120.8 | 3.1 | 117.7 | 5.70 |
| % change from '88 | 2.0 | 3.0 | 3.1 | 0.0 | 3.2 | -1.64 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| + 9.59% | 1-Family Unit price Existing |
| + 7.98% | 1-Family Unit price New |
| + .85% | Multiple Family Housing Starts |
| + .48% | Permits Issued |
| + .33% | Single Family Housing Starts |
| 0.00% | Mobile Home Shipments |

RECENT DATA INDICATE THAT THE DECLINE IN HOUSING ACTIVITY THAT STARTED IN APRIL IS LEVELING OFF.

No more significant drops are predicted for the rest of the year. However, no increases in housing starts are predicted. The balance of this year will be flat. Factors contributing to the weakness in housing will persist:

* No substantial declines in mortgage rates--forecast calls for drops in mortgage rates no earlier than in 1988.

* Inventories of unsold houses are and will remain high--6.5 months supply is predicted for the rest of the year.

* Prices of new homes have soared and will continue increasing:

| | Average Price of New Home | Median Price of New Home |
|---|---|---|
| | (tho. $) | |
| May '87 | 128 | 106 |
| June '87 | 140 | 110 |
| Second Half '87 | 152 | 119 |

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home shipments | Permits authorized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1986* | 1.179 | .626 | .244 | 1.769 | 112.2 | 98.3 |
| 1987:1* | 1.293 | .529 | .241 | 1.731 | 120.0 | 99.5 |
| 2 | 1.198 | .563 | .240 | 1.695 | 120.9 | 100.6 |
| 3 | 1.182 | .502 | .239 | 1.674 | 127.6 | 108.5 |
| 4 | 1.161 | .545 | .240 | 1.676 | 131.2 | 112.9 |
| YEAR | 1.208 | .535 | .240 | 1.694 | 124.9 | 105.4 |
| % change from '86 | 2.5 | -14.6 | -1.6 | -4.2 | 11.3 | 7.2 |
| 1988:1 | 1.195 | .512 | .227 | 1.656 | 134.1 | 114.1 |
| 2 | 1.217 | .532 | .251 | 1.692 | 137.5 | 115.6 |
| 3 | 1.248 | .537 | .248 | 1.698 | 140.1 | 118.4 |
| 4 | 1.196 | .549 | .242 | 1.602 | 145.9 | 121.4 |
| YEAR | 1.214 | .532 | .242 | 1.662 | 139.4 | 117.4 |
| % change from '87 | .5 | -.4 | .8 | -1.9 | 11.6 | 11.4 |
| 1989:1 | 1.140 | .544 | .237 | 1.567 | 146.0 | 122.0 |
| 2 | 1.248 | .590 | .262 | 1.684 | 148.4 | 123.7 |
| 3 | 1.250 | .621 | .289 | 1.721 | 150.2 | 125.7 |
| 4 | 1.209 | .594 | .298 | 1.768 | 151.8 | 127.7 |
| YEAR | 1.212 | .587 | .271 | 1.685 | 149.1 | 124.8 |
| % change from '88 | -.2 | 10.3 | 12.2 | 1.4 | 7.0 | 6.3 |

*Historical data.
**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

COMPARED TO THE PREVIOUS FORECAST, DATA OF CAR SALES AND FACTORY SHIPMENTS FOR THIS YEAR HAVE INCREASED A BIT.

Now, forecast calls for 9.8 million cars sold and 7.5 million shipments this year--still well below the 11.5 and 7.7 of last year, respectively.

REASONS FOR INCREASED FORECAST:

- Strong sales in the second second half of June.
- Improves sales in the third quarter due to drastic incentive programs.
- No strike at GM or Ford. If a strike occurs, the effects are expected to be minimal.

1988 is forecasted a better year for the auto industry: 10.6 million cars sold, 3 million imported and 7.6 million domestically produced.

### 1987 FORECAST DATA

Percent Change from July 1987 Forecast

| | |
|---|---|
| + 1.47% | Total Light Truck Sales |
| + .34% | Domestic Car Sales |
| + .24% | Total Car Sales |
| 0.00% | Imported Car Sales |
| 0.00% | Dealer Inventory |
| 0.00% | Shipments |

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 11.5 | 8.2 | 3.2 | 1.5 | 7.6 | 3.7 |
| 1987:1* | 9.4 | 6.8 | 2.6 | 1.9 | 7.7 | 3.4 |
| 2 | 9.5 | 6.8 | 2.7 | 1.9 | 7.4 | 3.5 |
| 3 | 9.9 | 6.9 | 3.0 | 1.8 | 7.6 | 3.5 |
| 4 | 9.8 | 6.9 | 2.9 | 1.8 | 7.3 | 3.3 |
| YEAR | 9.7 | 6.9 | 2.8 | 1.8 | 7.5 | 3.4 |
| % change from '86 | -16.1 | -16.5 | -12.5 | 20.0 | -1.3 | -7.4 |
| 1988:1 | 9.8 | 7.0 | 2.8 | 1.8 | 7.4 | 3.3 |
| 2 | 10.2 | 7.3 | 2.9 | 1.7 | 7.5 | 3.4 |
| 3 | 11.1 | 7.9 | 3.2 | 1.7 | 7.9 | 3.6 |
| 4 | 10.6 | 7.5 | 3.1 | 1.6 | 7.6 | 3.5 |
| YEAR | 10.4 | 7.4 | 3.0 | 1.6 | 7.6 | 3.5 |
| % change from '87 | 8.0 | .9 | 7.1 | -11.1 | 1.3 | .7 |
| 1989:1 | 10.0 | 7.0 | 3.0 | 1.7 | 7.2 | 3.2 |
| 2 | 10.5 | 7.5 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 10.8 | 7.7 | 3.1 | 1.7 | 7.3 | 3.4 |
| 4 | 10.9 | 7.8 | 3.1 | 1.7 | 7.4 | 3.5 |
| YEAR | 10.6 | 7.5 | 3.0 | 1.7 | 7.3 | 3.4 |
| % change from '88 | 1.2 | -.5 | 1.7 | 6.2 | -3.3 | -1.4 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| + 2.92% | Federal Income Tax |
| + .08% | Corp. Profit Tax Accrued |
| - .09% | State Income Tax |
| - 1.17% | State Surplus/ Deficit |
| - 1.50% | Federal Surplus/ |
| - 1.87% | State Local Corp. Tax Accrued |

As seen in Table 1.5 on the following page, significant declines in Federal budget deficits are expected this and the following years.

Data on Federal deficit have been calculated with the assumption that no tax increases will take place and the Federal expenditures will follow the Administration's proposal for 1988 fiscal year as well as the Administration's budget outlines for the following fiscal years.

Forecast data show the main factors that will contribute to declines in Federal deficit are and will stay:

* Increases of personal income taxes due to higher incomes generated by more employed persons.

* Corporate profit taxes due to expected surge in corporate profits.

Forecast data show that these budgets do not really call for additional taxation as long as Congress adheres to the provisions of Gramm-Rudman and abstains from excessive spending proposals.

## TABLE 1.50
## FEDERAL, STATE AND LOCAL BUDGETS

Quarterly data are seasonally adjusted at annual rates.

| | *-----FEDERAL----------* | | | *---STATE AND LOCAL----* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 361.9 | 83.8 | -203.3 | 152.1 | 19.7 | 63.1 |
| 1987:1* | 375.0 | 105.2 | -170.4 | 158.0 | 23.6 | 50.2 |
| 2 | 415.6 | 109.5 | -162.4 | 162.3 | 24.8 | 52.4 |
| 3 | 418.7 | 112.0 | -160.5 | 166.0 | 26.4 | 54.0 |
| 4 | 422.5 | 115.1 | -159.3 | 168.9 | 28.3 | 56.1 |
| YEAR | 407.9 | 110.5 | -163.2 | 163.8 | 25.8 | 53.2 |
| % change from '86 | 12.7 | 31.8 | -19.7 | 7.7 | 30.8 | -15.7 |
| 1988:1 | 424.3 | 117.3 | -156.1 | 170.1 | 30.4 | 56.1 |
| 2 | 427.6 | 120.5 | -152.2 | 172.5 | 32.0 | 58.7 |
| 3 | 432.9 | 121.8 | -150.1 | 177.5 | 33.8 | 60.0 |
| 4 | 440.5 | 124.0 | -146.0 | 180.9 | 34.9 | 62.0 |
| YEAR | 431.3 | 120.9 | -151.1 | 175.2 | 32.8 | 59.2 |
| % change from '87 | 5.7 | 9.5 | -7.4 | 7.0 | 27.2 | 11.3 |
| 1989:1 | 447.1 | 125.8 | -140.1 | 183.9 | 36.4 | 61.4 |
| 2 | 454.1 | 128.7 | -139.3 | 185.2 | 37.7 | 63.0 |
| 3 | 459.6 | 130.6 | -133.2 | 187.5 | 39.2 | 64.9 |
| 4 | 461.8 | 133.1 | -130.1 | 190.4 | 40.4 | 65.8 |
| YEAR | 455.7 | 129.5 | -135.7 | 186.8 | 38.4 | 63.8 |
| % change from '88 | 5.6 | 7.2 | -10.2 | 6.6 | 17.2 | 7.7 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| + .84% | Personal Income |
| + .64% | Personal Disp. Income |
| + .49% | Comp. of Employees |
| + .15% | Average Weekly Earnings |
| - .07% | Corp. After Tax Profit |
| - 3.61% | Personal Savings |

THERE ARE NO SIGNS OF A

SLOWDOWN OR NEGATIVE GROWTH.

Forecast data for Personal Income, Personal Disposable Income, and their components point to steady growth for the rest of this year and 1988.

Personal Savings, as reported here, are based on methodology used by the U.S. Department of Commerce who calculates Personal Savings as a residual: Personal Disposable Income minus Personal Consumption Expenditures minus some small items equals Personal Saving. Actual Personal Saving is higher--if one takes into account additional items such as change in consumer credit, appreciation of households assets and some other items (Federal Reserve System methodology). Comparison of Personal Saving (% change from previous year)

| | US Dept of Commerce | Federal Res. System |
|---|---|---|
| 1986 | + 5.3 | +7.8 |
| 1987 | - 1.0 | +3.4 |
| 1988 | + 3.2 | +6.9 |

## TABLE 1.60
## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1986* | 3485.7 | 2971.6 | 2498.0 | 134.0 | 114.2 | 382.0 |
| 1987:1* | 3587.9 | 3054.9 | 2567.3 | 150.2 | 106.5 | 391.2 |
| 2 | 3716.4 | 3138.5 | 2613.1 | 156.7 | 100.6 | 403.0 |
| 3 | 3728.7 | 3144.0 | 2665.1 | 163.4 | 110.0 | 405.1 |
| 4 | 3820.9 | 3229.5 | 2731.6 | 168.7 | 118.1 | 407.0 |
| YEAR | 3713.5 | 3141.7 | 2644.3 | 159.8 | 108.8 | 401.6 |
| % change from '86 | 6.5 | 5.7 | 5.9 | 19.2 | -4.7 | 5.1 |
| 1988:1 | 3951.4 | 3357.0 | 2789.7 | 173.0 | 118.5 | 409.1 |
| 2 | 4020.3 | 3420.2 | 2834.2 | 179.6 | 119.8 | 413.7 |
| 3 | 4096.0 | 3485.6 | 2903.5 | 183.0 | 116.5 | 417.9 |
| 4 | 4328.4 | 3707.0 | 2961.5 | 189.5 | 120.6 | 419.4 |
| YEAR | 4099.0 | 3492.5 | 2872.2 | 181.3 | 118.8 | 415.0 |
| % change from '87 | 10.4 | 11.2 | 8.6 | 13.5 | 9.2 | 3.3 |
| 1989:1 | 4415.8 | 3784.8 | 2985.2 | 194.6 | 120.0 | 421.8 |
| 2 | 4503.0 | 3863.7 | 2998.7 | 198.4 | 126.5 | 424.5 |
| 3 | 4591.2 | 3944.1 | 3036.6 | 199.2 | 130.2 | 427.2 |
| 4 | 4734.3 | 4082.1 | 3092.7 | 204.3 | 133.1 | 428.6 |
| YEAR | 4561.1 | 3918.7 | 3028.3 | 199.1 | 127.4 | 425.5 |
| % change from '88 | 11.3 | 12.2 | 5.4 | 9.8 | 7.2 | 2.5 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

LOOK FOR RAPID GROWTH OF NARROW MONEY M1, SOME SLOWING DOWN OF THE GROWTH OF M2 AND M3 AND RESUMPTION OF GROWTH OF LARGE NEGOTIABLE CDs.

The main reasons for continuous rapid growth of M1 are:

- The trade gap
- Increases in value of stock traded in the stock market

Forecast of credit aggregates calls for slowing down in consumer credit, mortgage credit and commercial loans this year and resumption of fast growth of all these aggregates in 1988.

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| +11.56% | Large Denom. Time Deposits |
| + .78% | Comm. & Industy. Loans at Banks |
| - .52% | Mortg. at S & L Assns. |
| - .60% | Consumer Install. Credit |
| - 1.00% | Consumer & Demand Deposits |
| - 1.86% | Time Deposits |

### TABLE 1.70
### MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 673.2 | 2681.8 | 577.8 | 517.6 | 447.1 | 553.1 |
| 1987:1* | 738.2 | 2822.8 | 579.5 | 520.4 | 450.1 | 546.0 |
| 2 | 750.1 | 2840.8 | 585.2 | 525.6 | 465.1 | 550.2 |
| 3 | 760.8 | 2886.2 | 596.1 | 531.4 | 476.5 | 554.1 |
| 4 | 766.7 | 2957.5 | 610.3 | 547.8 | 483.2 | 558.6 |
| YEAR | 754.0 | 2876.8 | 610.3 | 547.8 | 483.2 | 558.6 |
| % change from '86 | 12.0 | 7.3 | 5.6 | 5.3 | 8.1 | 1.0 |
| 1988:1 | 772.2 | 3020.7 | 618.1 | 550.9 | 488.1 | 562.2 |
| 2 | 782.1 | 3106.4 | 625.9 | 553.2 | 492.1 | 565.8 |
| 3 | 794.3 | 3163.5 | 635.5 | 557.9 | 497.4 | 574.2 |
| 4 | 806.4 | 3219.7 | 658.3 | 569.4 | 502.7 | 578.1 |
| YEAR | 788.8 | 3127.6 | 658.3 | 569.4 | 502.7 | 578.1 |
| % change from '87 | 4.6 | 8.7 | 7.9 | 3.9 | 4.0 | 3.5 |
| 1989:1 | 814.2 | 3274.5 | 669.4 | 571.7 | 507.6 | 580.3 |
| 2 | 884.2 | 3325.2 | 676.0 | 510.0 | 512.3 | 586.3 |
| 3 | 830.1 | 3402.7 | 684.7 | 573.6 | 516.7 | 591.2 |
| 4 | 838.6 | 3475.6 | 700.2 | 577.8 | 527.4 | 608.5 |
| YEAR | 841.8 | 3369.5 | 700.2 | 577.8 | 527.4 | 608.5 |
| % change from '88 | 6.7 | 7.7 | 6.4 | 1.5 | 4.9 | 5.3 |

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*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987
FORECAST
DATA

Percent Change
from
July 1987
Forecast

| | |
|---|---|
| +10.65% | 20 yr Govt. Bonds Yield |
| + 3.98% | Aaa Corp. Bond Rate |
| + 1.87% | Prime Rate |
| + 1.45% | Conv. Mortg. Rate |
| + .05% | Treas. Bills 3 mo. Yield. |
| - .79% | S & P's 500 Avg. |

INTEREST RATES WILL STABILIZE AT PRESENT LEVELS THROUGHOUT THIS YEAR AND WILL DECLINE TO SLIGHTLY LOWER LEVELS FOR MOST OF 1988. SOME INCREASES ARE EXPECTED IN 1989.

KEDI assumes that Federal Reserve will stick on low interest rates policy for the rest of this year and next.

High interest rates would have negative impact on:

* Consumer spending--would further depress auto market and housing

* Slow down business capital outlays

* Push down the bonds market

This would bring serious trouble to the economy. On the other hand, the differentials betweeen U.S. long-term rates and long-term rates overseas are wide enough to attract foreign investments in U.S. Government bonds and corporate securities. There is no need to widen it any more.

KEDI maintains the forecast of a bullish stock market for 1987 and 1988. There is still a significant difference between values of U.S. stocks and values of stocks overseas--so there is room enough for U.S. stocks to keep increasing.

Industrial Stock Indexes, July 1987 Values
(1969 = 100)

| | |
|---|---|
| U.S. | 332.4 |
| U.K. | 401.7 |
| Canada | 393.2 |
| France | 424.4 |
| Japan | 520.0 |

## TABLE 1.80
## INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 30 yr. Govt. bonds yield<br>% | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 5.97 | 8.33 | 9.82 | 9.02 | 7.80 | 236.34 |
| 1987:1* | 5.53 | 7.50 | 9.06 | 8.37 | 7.87 | 279.30 |
| 2 | 5.78 | 8.21 | 9.94 | 9.02 | 8.72 | 317.41 |
| 3 | 5.68 | 8.50 | 10.04 | 9.02 | 8.70 | 320.23 |
| 4 | 5.57 | 8.50 | 10.02 | 9.08 | 8.66 | 324.58 |
| YEAR | 5.64 | 8.18 | 9.77 | 8.87 | 8.49 | 310.38 |
| % change from '86 | -5.5 | -1.8 | -.6 | -1.6 | 8.8 | 31.3 |
| 1988:1 | 5.35 | 8.50 | 10.14 | 9.12 | 8.56 | 326.79 |
| 2 | 5.21 | 8.27 | 9.97 | 9.04 | 8.40 | 337.48 |
| 3 | 5.24 | 8.24 | 9.85 | 8.96 | 8.32 | 348.96 |
| 4 | 5.36 | 8.20 | 9.81 | 8.90 | 8.27 | 345.72 |
| YEAR | 5.29 | 8.30 | 9.94 | 9.00 | 8.39 | 339.74 |
| % change from '87 | -6.2 | 1.5 | 1.8 | 1.5 | -1.2 | 9.5 |
| 1989:1 | 5.48 | 8.35 | 9.84 | 8.97 | 8.06 | 357.24 |
| 2 | 5.59 | 8.50 | 9.93 | 9.10 | 8.16 | 360.31 |
| 3 | 5.71 | 8.50 | 9.63 | 9.14 | 8.26 | 357.02 |
| 4 | 5.79 | 8.75 | 9.56 | 9.26 | 8.66 | 354.52 |
| YEAR | 5.64 | 8.53 | 9.74 | 9.12 | 8.29 | 357.27 |
| % change from '88 | 6.6 | 2.7 | -2.0 | 1.2 | -1.2 | 5.2 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of GNP in const. 1982 $ has been selected for comparison. Actual number is in the Survey of Current Business, May 1987 issue, Table 1.2 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
GNP in const. 1982 $ (bil.)
Actual figure: 3674.2

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy percent difference |
|---|---|---|---|
| The Journal of Business Forecasting, p.51 | 1/86 | 3683.8 | + .3 |
| Mellon Bank, pg. 52 | 1/86 | 3675.8 | + .0 |
| L. D. Reese, Cities Service Oil and Gas, p. 53 | 1/86 | 3675.5 | + .0 |
| Wharton Econometrics, p. 54 | 1/86 | 3674.5 | + .0 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 3660.2 | - .4 |
| Georgia State Univ., p. 66 | 2/86 | 3686.4 | + .3 |
| KEDI, Inc., p. 67 | 2/1/86 | 3677.9 | + .0 |
| Armco, Inc., p. 59 | 1/22/86 | 3666.0 | - .2 |
| Shearson Lehman Brothers, p. 61 | 1/23/86 | 3681.9 | + .2 |
| John J. McAuley, Fordham Univ., p. 62 | 1/24/86 | 3676.0 | + .0 |
| Chase Econometrics, p. 65 | 1/29/86 | 3662.6 | - .3 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

### TABLE 3.00

### HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

10/2/87 B4950-1A

# KEDI ECONOMIC SURVEY

September 1, 1987

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SOURCES:

U.S.Department of Commerce second estimate of 1987:2, National Income and Product data, August 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, August 1987.

The latest available data on prices, employment, industrial and financial developments.

## 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

### Real Growth

The economy isn't booming yet, but indications are that it is heading in that direction.

### Prices

All indications point to a moderate rise in the CPI for the rest of this year. No need to worry about inflation!

### Employment & Labor

The August unemployment rate is expected to remain flat. Forecast data call for increases in employment in many areas.

### Housing

There are signs of some rebound in housing starts from low levels of 1987:2 due to stabilization of mortgage rates.

### Automobiles

Latest data on car sales show an 18% jump in mid-August over mid-August sales in 1986, but that is not too encouraging.

### Budgets

No significant tax increases are anticipated if the administration and Congress can come to agreements.

### Income

Optimistic forecast data for the balance of this year and next with no significant slowing down or even declining.

### Money & Credit

KEDI anticipates that the Fed will tighten monetary policy slightly in the months ahead with relaxation in about six months.

### Interest Rates, Yields & Securities Prices

It is anticipated that the recent, moderate increases in interest rates are final and no significant further tightening will occur.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue in to 1987. Some tightening is not expected earlier than in 1989. | July 1987 |
| 3. | In 1987 and 1988 good crops in all main producing countries are anticipated. | September 1986 |
| 4. | Foreign trade with China will expand in 1987 and following years. | May 1986 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%. | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

* Table 0.00 on page 3 shows forecast data of selected indicators of the August 1987 KEDI forecasts.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1990-1991.

* Forecast data for 1988-1991 do not point to recession or major downturn.

* In 1987 interest rates will remain at low levels throughout the year. Some slight increases are anticipated in late 1988 and in 1989.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1987 export-import gap will start closing to a more acceptable level.

## TABLE 0.0

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1986 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3713.3 | 4208.5 | 4309.5 | 4421.5 |
| product, p. 5 | % change | 2.9 | 3.1 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 125.1 | 141.9 | 146.6 | 151.5 |
| prod., p. | % change | 1.0 | 3.0 | 3.3 | 3.4 |
| Capacity | % | 79.6 | 81.9 | 81.1 | 80.3 |
| utiliz., p. 5 | % change | -1.0 | .1 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 5.7 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | -1.0 | 1.1 | -.9 |
| Private housing | mil.units | 1.8 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | -4.2 | 3.3 | -2.0 | 3.5 |
| Car sales, | mil.units | 11.5 | 10.9 | 11.0 | 11.4 |
| p. 5 | % change | 3.2 | 2.9 | 1.0 | 4.0 |
| Implicit GNP | 1982=100 | 114.5 | 134.7 | 139.5 | 144.7 |
| price def.,p.11 | % change | 2.6 | 3.5 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 328.4 | 381.5 | 393.3 | 407.4 |
| Index, p. 11 | % change | 1.9 | 3.7 | 3.1 | 3.6 |
| Prod.Price Index | 1967=100 | 289.6 | 346.0 | 361.6 | 375.4 |
| (fin.goods),p.11 | % change | -1.6 | 4.2 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -220.0 | -107.7 | -87.2 | -70.0 |
| p. 21 | % change | 8.2 | -13.0 | -19.1 | -19.7 |
| Personal Income | bil. $ | 3534.3 | 4771.1 | 5090.8 | 5472.6 |
| p. 23 | % change | 5.8 | 6.9 | 6.7 | 7.5 |
| Primé Rate | % | 8.3 | 8.[illegible] | 9.0 | 9.8 |
| p. 27 | % change | -11.6 | -4.0 | 9.1 | 8.6 |
| Mortgage Rate | % | 9.8 | 10.3 | 10.0 | 10.2 |
| p. 27 | % change | -11.7 | 5.8 | -2.7 | 1.8 |
| Currency+demand | bil. $ | 673.2 | 896.4 | 954.7 | 1019.6 |
| deposits , p. 25 | % change | 13.4 | 7.9 | 6.5 | 6.8 |
| Commercial+ind. | bil. $ | 517.6 | 595.9 | 545.8 | 620.3 |
| loans, p. 25 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 87.4 | 90.8 | 90.8 | 91.3 |
| production | % change | -.1 | .4 | .9 | .4 |
| Electric power | mil.kw-hr | 2614 | 3355.8 | 3342.8 | 3499.6 |
| production | % change | 6.0 | 3.8 | 3.7 | 4.7 |
| Bituminous coal | mil.sh.tons | 872 | 936 | 973.3 | 984.1 |
| production | % change | -.1 | 1.1 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3261 | 2361 | 2371.7 | 2426.2 |
| output | % change | .8 | 2.[illegible] | 2.2 | 2.3 |
| Retail sales | bil. $ | 1454.4 | 1881.5 | 1998.1 | 2138.0 |
| p. 7 | % change | 6.0 | 7.1 | 6.2 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

## 1.11 REAL GROWTH

See Table 1.11
Page 5

THE ECONOMY ISN'T BOOMING YET, BUT INDICATIONS ARE THAT IT IS HEADING IN THAT DIRECTION:

* CAPACITY UTILIZATION in factories, mines, and utilities has been constantly increasing for 4 consecutive months, and the August utilization rate is expected to go up again to 81%--the highest level since November 1984.

* There is no evidence that high capacity utilization rate are pressuring prices upwards.

* In 1987:2, GNP grew by 2.3%, a fairly good performance, and indications are that at least such rate--probably higher--will be sustained in the third and fourth quarters.

* Despite the temporary decline in July, the orders for durables remained at 7.7% above the year-earlier level.

* Indications point that capital spending will continue to grow in 1988, mainly the result of an improving export market.

* Unemployment among married men, the key indicator of the employment situation, dropped in July to 3.8% of the total civilian labor force. The forecast calls for further drops to 3.6% in December this year.

* Leading indicators for July rose to 191.8% of the 1967 average from 190.8% in June.

### 1987 FORECAST DATA

Percent Change from August 1987 Forecast

| | |
|---|---|
| + 2.32% | Private Housing Starts |
| + .24% | Autos |
| + .11% | Index Indus. Prod. |
| + .09% | Capacity Util. |
| - .10% | GNP |
| - .17% | Unemployment |

### TABLE 1.11
### SELECTED INDICATORS [illegible].
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR<br>Unit | GNP<br>$82 bil. | Index of ind. prod**<br>1977=100 | Unem-ploy ment<br>% | Capacity util'n rate**<br>% | Private housing starts<br>mil. | Auto sales<br>mil. |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 3713.[illegible] | 125.1 | 7.04 | 79.6 | 1.805 | 11.5 |
| 1987:1* | 3772.2 | 126.8 | 6.67 | 80.1 | 1.822 | 9.6 |
| 2* | 3793.7 | 127.8 | 6.23 | 80.2 | 1.612 | 9.5 |
| 3 | 3826.2 | 129.2 | 5.97 | 80.[illegible] | 1.647 | 10.3 |
| 4 | 3854.3 | 131.8 | 5.96 | 80.3 | 1.666 | 9.8 |
| YEAR | 3811.6 | 128.9 | 6.21 | 79.6 | 1.687 | 9.8 |
| % change from '86 | 2.6 | 3.0 | -11.8 | 0.0 | -6.6 | -14.8 |
| 1988:1 | 3881.0 | 132.4 | 5.94 | 80.4 | 1.630 | 9.8 |
| 2 | 3900.1 | 134.0 | 5.85 | 80.6 | 1.768 | 10.2 |
| 3 | 3936.3 | 135.5 | 5.71 | 81.4 | 1.806 | 11.1 |
| 4 | [illegible] | 135.9 | 5.62 | 81.9 | 1.754 | 10.6 |
| YEAR | 3947.3 | 134.4 | 5.78 | 81.1 | 1.740 | 10.4 |
| % change from '87 | 3.6 | 4.3 | -6.9 | [illegible] | 3.1 | 6.4 |
| 1989:1 | 4066.1 | 136.8 | 5.71 | 81.8 | 1.684 | 10.0 |
| 2 | 4077.3 | 137.1 | 5.86 | 81.8 | 1.834 | 10.5 |
| 3 | 4084.2 | 138.1 | 5.88 | 81.7 | 1.915 | 10.8 |
| 4 | 4100.1 | 139.0 | 5.71 | 81.9 | 1.809 | 10.9 |
| YEAR | 4081.9 | 137.8 | 5.79 | 81.8 | 1.810 | 10.6 |
| % change from '88 | 3.4 | 2.5 | .2 | .9 | 4.1 | 1.2 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

CONSUMER SPENDING WAS UP BY .9% IN JULY--SECOND CONSECUTIVE MONTHLY INCREASE.

It is expected that August and September will also be good months, due mainly to the auto sales incentives. KEDI forecast calls for some slowing down in consumer spending in October and November, and a rapid surge in December of this year.

KEDI's outlook for retail sales remains optimistic. The comparison of August 1986 sales is not typical because of this year's Labor Day in September. Sales will pick up in September and will slow down somewhat afterwards.

NO DECLINE OR FLATNESS ARE PREDICTED FOR THE REST OF THE YEAR.

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | | |
|---|---|---|
| + | .69% | Pers. Con. Exp. Nondurable |
| + | .47% | Pers. Con. Exp. Durables |
| + | .15% | Retail Sales Nondurable |
| - | .09% | Retail Sales Total |
| - | .45% | Retail Sales Durable |
| - | .99% | Pers. Con. Expend. Services |

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *--Personal Cons. Expend.-** Durables | Nondur-ables | Services | ------Retail Sales-------* Total | Durables | Nondur-ables |
|---|---|---|---|---|---|---|
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1986* | 402.4 | 939.4 | 1458.0 | 1454.4 | 568.1 | 888.3 |
| 1987:1* | 396.1 | 969.9 | 1527.7 | 1483.2 | 536.4 | 926.8 |
| 2* | 407.5 | 982.5 | 1557.5 | 1515.6 | 557.1 | 958.5 |
| 3 | 406.2 | 992.1 | 1614.3 | 1565.7 | 577.5 | 988.2 |
| 4 | 414.9 | 997.7 | 1656.7 | 1585.2 | 591.4 | 993.8 |
| YEAR | 406.2 | 985.5 | 1589.0 | 1537.4 | 565.6 | 966.8 |
| % change from '86 | .9 | 4.9 | 9.0 | 5.7 | -.4 | 8.8 |
| 1988:1 | 408.8 | 1014.5 | 1704.0 | 1614.1 | 617.4 | 996.7 |
| 2 | 415.6 | 1023.1 | 1739.7 | 1635.2 | 638.2 | 997.0 |
| 3 | 429.9 | 1036.8 | 1768.8 | 1679.4 | 668.7 | 1010.7 |
| 4 | 424.7 | 1049.1 | 1956.4 | 1689.2 | 680.3 | 1008.9 |
| YEAR | 419.8 | 1030.9 | 1792.2 | 1654.5 | 651.1 | 1003.3 |
| % change from '87 | 3.3 | 4.6 | 12.8 | 7.6 | 15.1 | 3.8 |
| 1989:1 | 429.5 | 1061.1 | 1986.6 | 1737.2 | 691.4 | 1045.8 |
| 2 | 436.8 | 1076.2 | 1983.9 | 1751.2 | 701.6 | 1049.6 |
| 3 | 447.2 | 1095.8 | 2128.3 | 1758.2 | 731.1 | 1027.1 |
| 4 | 451.8 | 1118.2 | 2120.6 | 1780.4 | 732.5 | 1047.9 |
| YEAR | 441.3 | 1087.8 | 2054.8 | 1756.8 | 714.1 | 1042.6 |
| % change from '88 | 5.1 | 5.5 | 14.7 | 6.2 | 9.7 | 3.9 |

## 1.13 REAL GNP

See Table 1.13
Page 9

### 1987 FORECAST DATA

Percent Change from August 1987 Forecast

| | |
|---|---|
| + 1.11% | Net Exports |
| + .54% | Federal Govt. Purch. |
| + .01% | Gross Private Dom. Inv. |
| - .03% | State Local Purch. |
| - .10% | GNP |
| - .17% | Pers. Cons. Expend. |

### REVISED REAL GNP DATA FOR 1987:2 SHOW FURTHER EXPANSION OF THE ECONOMY--ACCELERATING NEXT YEAR.

The 1987:2 data and forecast data for 1987:3 through 1988:4 point to continuous growth. Compared to growth rates of economies of other countries, the U.S. growth is among the strongest. If the U.S. economy grows 2.8% this year and around 3.5% in 1988, it would have grown an average 3.4% since the end of 1982. Germany, for example, has a comparable growth rate of 2.5%, including the expected 1987 and 1988 outcomes: France, 2.1%; Great Britain, 1.9%, with Italy at 1.7%.

All this means that the U.S. growth rate has been, and remains, stronger than the rest of the industrial world. That helps explain why the U.S. economy has been, and still is, experiencing large trade deficits--it is expanding faster and importing more.

It is expected that imports from Japan, Germany, and other industrialized countries will slow down gradually and be replaced by imports from Brazil, Korea, Taiwan and others. Therefore, KEDI forecast calls for gradual declines only in the U.S. trade gap with very small decrements.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

| | *------------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 2450.5 | 654.0 | -145.8 | 332.5 | 422.1 |
| 1987:1* | 3872.2 | 2475.9 | 671.8 | -135.2 | 327.3 | 432.3 |
| 2* | 3793.7 | 2485.7 | 673.8 | -133.3 | 333.1 | 434.4 |
| 3 | 3826.2 | 2525.0 | 659.1 | -130.1 | 335.2 | 437.0 |
| 4 | 3854.3 | 2539.3 | 662.7 | -125.1 | 337.8 | 439.6 |
| YEAR | 3811.6 | 2506.5 | 666.9 | -130.9 | 333.4 | 435.8 |
| % change from '86 | 2.6 | 2.3 | 2.0 | -10.2 | .3 | 3.3 |
| 1988:1 | 3881.0 | 2550.6 | 670.3 | -122.3 | 339.4 | 443.0 |
| 2 | 3900.1 | 2554.7 | 672.8 | -117.7 | 344.6 | 445.7 |
| 3 | 3936.3 | 2574.3 | 674.0 | -109.9 | 348.9 | 449.0 |
| 4 | 4072.0 | 2704.0 | 678.9 | -114.0 | 351.8 | 451.3 |
| YEAR | 3947.3 | 2595.9 | 674.0 | -116.0 | 346.2 | 447.2 |
| % change from '87 | 3.6 | 3.6 | 1.1 | -11.4 | 3.8 | 2.6 |
| 1989:1 | 4066.1 | 2692.9 | 680.3 | -115.2 | 353.2 | 454.9 |
| 2 | 4077.3 | 2693.6 | 681.7 | -113.8 | 356.1 | 459.7 |
| 3 | 4084.2 | 2694.2 | 677.3 | -110.1 | 359.8 | 463.0 |
| 4 | 4100.1 | 2703.2 | 680.2 | -112.1 | 362.9 | 465.9 |
| YEAR | 4081.9 | 2703.9 | 679.9 | -112.8 | 350.1 | 460.9 |
| % change from '88 | 3.4 | 4.2 | .9 | -2.7 | 1.1 | 3.0 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

ALL INDICATIONS POINT TO A
MODERATE RISE IN THE PPI
FOR THE REST OF THIS YEAR.

NO NEED TO WORRY ABOUT INFLATION!

July prices, as measured by CPI are expected to grow by a meager .1-.2% only. Forecast data for the CPI's most volatile items, food and energy, indicate that both kinds of prices will behave moderately for the rest of the year. That points to CPI's approximate 3% annual rate for 1987. The U.S. Department of Commerce data on GNP price deflator for the second half of 1987 also point to moderate price growth in 1987:2. GNP price deflator rose by 3.8% annual rate compared to the 4.2% annual rise in the first quarter.

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | | |
|---|---|---|
| + | .54% | Federal Govt. Purch. |
| + | .05% | Consumer Price Index |
| - | .02% | GNP |
| - | .06% | State Local Purch. |
| - | .09% | Pers. Cons. Expend. |
| - | .11% | Producer Price Index |

# TABLE 1.21
## PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | *---Indexes--* |  | *-------Price deflators--------* |  |  |  |
|---|---|---|---|---|---|---|
|  | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. |  |  |  |  |  |  |
| 1986* | 328.4 | 289.7 | 114.1 | 114.3 | 110.2 | 119.3 |
| 1987:1* | 334.8 | 292.1 | 116.1 | 116.9 | 112.1 | 122.4 |
| 2* | 338.8 | 296.0 | 117.2 | 118.4 | 114.5 | 123.8 |
| 3 | 340.2 | 301.0 | 118.5 | 119.3 | 115.6 | 125.6 |
| 4 | 344.5 | 304.9 | 119.8 | 120.9 | 117.1 | 127.3 |
| YEAR | 339.6 | 298.5 | 117.9 | 118.9 | 114.8 | 124.8 |
| % change from '86 | 3.4 | 3.0 | 3.3 | 4.0 | 4.2 | 4.6 |
| 1988:1 | 348.9 | 309.0 | 121.1 | 122.6 | 118.5 | 128.2 |
| 2 | 351.6 | 313.2 | 122.4 | 124.4 | 119.4 | 129.5 |
| 3 | 354.2 | 318.6 | 123.5 | 125.7 | 120.3 | 132.0 |
| 4 | 357.3 | 321.0 | 124.9 | 126.9 | 121.6 | 133.2 |
| YEAR | 353.0 | 315.4 | 123.0 | 124.9 | 120.0 | 130.7 |
| % change from '87 | 4.0 | 5.7 | 4.3 | 5.0 | 4.5 | 4.8 |
| 1989:1 | 361.7 | 324.9 | 126.3 | 129.1 | 123.1 | 134.1 |
| 2 | 365.2 | 329.5 | 127.8 | 129.8 | 125.0 | 136.2 |
| 3 | 369.5 | 334.3 | 132.9 | 136.3 | 127.2 | 138.8 |
| 4 | 375.0 | 339.7 | 133.5 | 136.5 | 129.1 | 141.1 |
| YEAR | 367.9 | 332.1 | 130.1 | 132.9 | 126.1 | 137.6 |
| % change from '88 | 4.2 | 5.3 | 5.8 | 6.4 | 5.1 | 5.2 |

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*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

THE 1987 GROWTH RATES OF NOMINAL GNP AND PERSONAL CONSUMPTION EXPENDITURES ARE NOW A BIT LOWER BECAUSE OF THE UPWARD REVISIONS FOR 1986.

* The July benchmark revision of the 1986 National Income and Product data has affected mostly the figures of total GNP, Personal Consumption Expenditures, and Gross Private Domest Investment.

| | Old Figures for '86 | New Figures for '86 |
|---|---|---|
| | (Current $ bil.) | |
| GNP | 4206.1 | 4235.0 |
| Personal Cons. Expenditures | 2762.1 | 2799.8 |
| Gross Private Dom. Invest. | 683.6 | 671.0 |

With new figures for 1986, forecast data for 1987 give somewhat differing interpretation:

In 1987, the Gross Private Domestic Investment will grow at a faster rate than previously forecasted. The main reason is that the new figure for the 1986 Gross Business Fixed Capital Expenditures is lower than the old one.

### 1987 FORECAST DATA

Percent Change from August 1987 Forecast

| | |
|---|---|
| + 1.93% | Net Exports |
| + 1.07% | Federal Govt. Purch. |
| + .05% | Gross Private Dom. Inv. |
| - .10% | State Local Purch. |
| - .14% | GNP |
| - .27% | Pers. Cons. Expend. |

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | *-----------Gross National Product | | | | | ---------------* |
|---|---|---|---|---|---|---|
| | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 4235.0 | 2799.8 | 671.0 | -105.5 | 366.2 | 503.5 |
| 1987:1* | 4377.7 | 2893.8 | 699.7 | -112.2 | 366.9 | 529.3 |
| 2* | 4447.8 | 2947.3 | 700.9 | -118.6 | 380.3 | 537.8 |
| 3 | 4534.0 | 3012.6 | 703.4 | -118.3 | 387.5 | 548.9 |
| 4 | 4617.5 | 3069.3 | 708.9 | -115.9 | 395.6 | 559.6 |
| YEAR | 4494.7 | 2981.2 | 703.2 | -116.2 | 382.6 | 543.9 |
| % change from '86 | 6.1 | 6.5 | 4.8 | 10.2 | 4.5 | 8.0 |
| 1988:1 | 4699.9 | 3127.3 | 713.9 | -111.4 | 402.2 | 567.9 |
| 2 | 4773.7 | 3178.4 | 716.2 | -109.5 | 411.5 | 577.2 |
| 3 | 4861.3 | 3235.5 | 717.5 | -104.1 | 419.7 | 592.7 |
| 4 | 5085.9 | 3430.2 | 729.1 | -102.3 | 427.8 | 601.1 |
| YEAR | 4855.2 | 3242.8 | 719.2 | -106.8 | 415.3 | 584.7 |
| % change from '87 | 8.0 | 8.8 | 2.3 | -8.1 | 8.6 | 7.5 |
| 1989:1 | 5135.5 | 3477.2 | 711.1 | -97.6 | 434.8 | 610.0 |
| 2 | 5210.8 | 3496.9 | 734.1 | -91.4 | 445.1 | 626.1 |
| 3 | 5427.9 | 3671.3 | 739.9 | -83.6 | 457.7 | 642.6 |
| 4 | 5473.6 | 3690.6 | 736.3 | -79.2 | 468.5 | 657.4 |
| YEAR | 5311.6 | 3594.4 | 730.4 | -88.0 | 451.5 | 634.0 |
| % change from '88 | 9.4 | 10.8 | 1.6 | -17.7 | 8.7 | 8.4 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | |
|---|---|
| + .77% | Non-Agri. |
| + .75% | Total Employed |
| + .74% | Civilian Labor Force |
| 0.00% | Agriculture |
| - .02% | Population |
| - .17% | Unemployment rate |

THE AUGUST UNEMPLOYMENT RATE IS EXPECTED TO REMAIN FLAT.

For the rest of this year, forecast data call for further increases in employment in:

* Mining segment, especially in oil and gas drilling

STRONG INCREASES IN:

* Business and health services
* Finance (except banking)
* Real estate
* Legal services
* Entertainment
* Transportation

MODERATE GAINS IN:

* Food
* Chemicals
* Paper

SOME IMPROVEMENTS IN:

* Primary metals
* Metalworking machinery
* Defense and aerospace industries

### TABLE 1.30
### EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| | | | Employment | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Population | Civil. labor force | Total | Agricult. | Non-agric. | Unemployment rate |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1986* | 241.5 | 119.5 | 109.6 | 3.2 | 106.4 | 7.04 |
| 1987:1* | 242.9 | 119.8 | 111.2 | 3.2 | 108.1 | 6.67 |
| 2 | 243.8 | 121.5 | 113.9 | 3.1 | 110.8 | 6.23 |
| 3 | 244.6 | 122.2 | 114.9 | 3.1 | 111.8 | 5.97 |
| 4 | 246.3 | 123.0 | 115.7 | 3.1 | 112.6 | 5.96 |
| YEAR | 244.4 | 121.6 | 114.5 | 3.1 | 111.4 | 6.21 |
| % change from '86 | 1.2 | 1.8 | 1.7 | -2.3 | 4.7 | -11.83 |
| 1988:1 | 247.5 | 123.8 | 116.4 | 3.1 | 113.3 | 5.94 |
| 2 | 249.6 | 124.9 | 117.6 | 3.1 | 114.5 | 5.85 |
| 3 | 250.4 | 125.8 | 118.6 | 3.1 | 115.5 | 5.71 |
| 4 | 251.5 | 126.8 | 119.7 | 3.1 | 116.6 | 5.62 |
| YEAR | 249.8 | 125.3 | 118.1 | 3.1 | 115.0 | 5.78 |
| % change from '87 | 2.2 | 3.0 | 3.3 | 0.0 | 3.2 | -6.89 |
| 1989:1 | 253.9 | 127.6 | 120.3 | 3.1 | 117.2 | 5.71 |
| 2 | 254.3 | 128.3 | 120.8 | 3.0 | 117.8 | 5.86 |
| 3 | 255.1 | 129.3 | 121.7 | 3.0 | 118.7 | 5.88 |
| 4 | 256.0 | 130.1 | 122.7 | 3.0 | 119.7 | 5.71 |
| YEAR | 254.8 | 128.8 | 121.4 | 3.1 | 118.3 | 5.79 |
| % change from '88 | 2.0 | 2.8 | 2.8 | 0.0 | 2.9 | .17 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

THERE ARE SIGNS OF SOME REBOUND IN HOUSING STARTS FROM LOW LEVELS OF THE SECOND QUARTER DUE TO STABILIZATION OF MORTGAGE RATES.

KEDI forecast data show that the rebound will not be significant. Main revival of housing activity is expected no earlier than 1988 when significant declines in mortgage rate are expected.

Despite the July rebound, housing remains well below the last year's levels.

For the first seven months of this year the construction contract value for residential building is 2% below last year's level, and taking into account the price increases for new homes, it is appromimately 4% below.

No significant improvements in the residential housing is expected for the rest of the year.

Expect further declines in residential construction in the coming months.

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | |
|---|---|
| + 2.73% | Mobile Home Shipments |
| + .28% | Multiple Family Housing Starts |
| - .13% | 1-Family Unit price Existing |
| - .66% | Single Family Housing Starts |
| - 1.31% | 1-Family Unit price New |
| - 4.87% | Permits Issued |

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR<br>Unit | Single family housing starts<br>mil. | Multi-family housing starts<br>mil. | Mobile home ship-ments<br>mil. | Permits author-ized<br>mil. | 1-Fam. unit price new**<br>tho. $ | 1-Fam. unit price exist**<br>tho. $ |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 1.179 | .628 | .244 | 1.769 | 112.2 | 98.3 |
| 1987:1* | 1.256 | .539 | .241 | 1.682 | 120.0 | 99.5 |
| 2 | 1.136 | .476 | .242 | 1.535 | 120.9 | 100.6 |
| 3 | 1.153 | .494 | .249 | 1.544 | 127.7 | 108.6 |
| 4 | 1.120 | .546 | .253 | 1.486 | 130.3 | 112.9 |
| YEAR | 1.166 | .514 | .246 | 1.562 | 124.7 | 105.4 |
| % change from '86 | -1.1 | -18.2 | .9 | -11.7 | 11.2 | 7.2 |
| 1988:1 | 1.116 | .514 | .230 | 1.550 | 132.1 | 113.1 |
| 2 | 1.236 | .532 | .259 | 1.592 | 135.5 | 115.6 |
| 3 | 1.269 | .537 | .261 | 1.608 | 140.1 | 118.8 |
| 4 | 1.203 | .551 | .244 | 1.574 | 142.6 | 121.5 |
| YEAR | 1.206 | .534 | .249 | 1.581 | 137.6 | 117.2 |
| % change from '87 | 3.4 | 3.8 | 1.0 | 1.2 | 10.3 | 11.2 |
| 1989:1 | 1.136 | .548 | .236 | 1.568 | 144.0 | 122.0 |
| 2 | 1.238 | .596 | .260 | 1.680 | 146.4 | 123.1 |
| 3 | 1.267 | .648 | .281 | 1.721 | 148.3 | 125.0 |
| 4 | 1.211 | .598 | .272 | 1.761 | 150.8 | 127.7 |
| YEAR | 1.213 | .598 | .262 | 1.683 | 147.4 | 124.5 |
| % change from '88 | .6 | 12.0 | 5.5 | 6.4 | 7.1 | 6.1 |

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*Historical data.

**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | |
|---|---|
| + .66% | Shipments |
| + .34% | Domestic Car Sales |
| + .24% | Total Car Sales |
| 0.00% | Imported Car Sales |
| 0.00% | Dealer Inventory |
| 0.00% | Total Light Truck Sales |

LATEST DATA ON CAR SALES SHOW AN 18% JUMP IN MID-AUGUST OVER MID-AUGUST SALES IN 1986, BUT THAT IS NOT TOO ENCOURAGING.

* The year-earlier sales were extremely low.

* Sales, so far, from the latest buyer programs, haven't been as strong as last fall.

People got used to the row of incentive programs since last year and do not react as vigorously as when the first incentives appeared.

KEDI forecast of car sales remains unchanged. It is not expected that the last 1.9% interest incentives will bring spectacular results, so KEDI forecast calls for SLIGHT increases in sales. However, the forecast ALSO shows that the car sales in the post-incentive period will not drop as much as they did last year.

This means that every round of incentives is actually pulling sales ahead, and add up to real new sales only marginally. So for the next six months, less of pulling sales ahead will mean more selling afterwards.

Forecast of factory shipments of cars for the 1987:4 and 1988:1 have been slightly reduced due to recently announced plans of car makers to scale down production in these periods.

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | *Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 11.5 | 8.2 | 3.3 | 1.5 | 7.5 | 3.7 |
| 1987:1* | 9.6 | 7.0 | 2.6 | 1.9 | 7.7 | 3.4 |
| 2 | 9.5 | 6.8 | 2.7 | 1.9 | 7.5 | 3.5 |
| 3 | 10.3 | 7.2 | 3.1 | 1.8 | 7.6 | 3.6 |
| 4 | 9.8 | 6.9 | 2.9 | 1.8 | 7.4 | 3.3 |
| YEAR | 9.8 | 7.0 | 2.8 | 1.8 | 7.5 | 3.5 |
| % change from '86 | -14.8 | -14.9 | -11.7 | 20.0 | .7 | -6.8 |
| 1988:1 | 9.8 | 7.0 | 2.8 | 1.8 | 7.4 | 3.3 |
| 2 | 10.2 | 7.3 | 2.9 | 1.7 | 7.5 | 3.4 |
| 3 | 11.1 | 7.9 | 3.2 | 1.7 | 8.1 | 3.7 |
| 4 | 10.6 | 7.5 | 3.1 | 1.6 | 7.6 | 3.6 |
| YEAR | 10.4 | 7.4 | 3.0 | 1.6 | 7.7 | 3.5 |
| % change from '87 | 6.4 | .2 | 6.2 | -11.1 | 1.3 | 1.4 |
| 1989:1 | 10.0 | 7.0 | 3.0 | 1.7 | 7.2 | 3.2 |
| 2 | 10.5 | 7.5 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 10.8 | 7.7 | 3.1 | 1.7 | 7.3 | 3.4 |
| 4 | 10.9 | 7.8 | 3.1 | 1.7 | 7.4 | 3.5 |
| YEAR | 10.6 | 7.5 | 3.0 | 1.7 | 7.3 | 3.4 |
| % change from '88 | 1.2 | -.5 | 1.7 | 6.2 | -3.9 | -2.9 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | |
|---|---|
| + .43% | State Income Tax |
| + .08% | Corp. Profit Tax Accrued |
| - 5.44% | Federal Surplus/ Deficit |
| - 5.49% | State Surplus/ Deficit |
| - 6.38% | Federal Income Tax |
| - 6.55% | State Local Corp. Tax Accrued |

NO SIGNIFICANT TAX INCREASES ARE ANTICIPATED IF THE ADMINISTRATION AND CONGRESS CAN COME TO AGREEMENTS.

Any such adjustments will be small and will not be tax increases in the strict meaning of the word.

Final figures for the Federal Budget deficit in 1987:2 released recently by the U.S. Department of Commerce shows a significant decline when compared to 1987:1 and the year 1986 (See Table 1.5 on the following page).

Though the decline to $141.9 billion is largely attributable to extraordinary high receipts in April (such high receipts are not expected to repeat again this year), the trend towards declining Federal Budget deficits is quite obvious.

KEDI anticipated that the outcome for this fiscal year ending September 30, 1987 will be quite close to the Gramm-Rudman targets.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

|  | *-----FEDERAL |  | ----------* | *---STATE AND LOCAL |  | ----* |
|---|---|---|---|---|---|---|
| INDICATOR | Income taxes | Corp. profits tax accru. | Surplus /deficit | Income taxes | Corp. profits tax accru. | Surplus /deficit |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. |  |  |  |  |  |  |
| 1986* | 363.0 | 83.7 | -220.0 | 149.8 | 21.3 | 56.8 |
| 1987:1* | 381.5 | 103.0 | -170.5 | 154.6 | 25.0 | 41.0 |
| 2* | 415.7 | 109.6 | -141.9 | 162.4 | 25.9 | 49.6 |
| 3 | 418.7 | 112.0 | -148.5 | 166.4 | 26.3 | 50.1 |
| 4 | 422.8 | 115.2 | -150.3 | 169.9 | 27.9 | 51.1 |
| YEAR | 409.7 | 110.0 | -152.8 | 163.3 | 26.3 | 48.0 |
| % change from '86 | 12.9 | 31.4 | -30.5 | 9.0 | 23.4 | -15.6 |
| 1988:1 | 424.3 | 117.4 | -147.1 | 171.5 | 28.1 | 53.1 |
| 2 | 428.1 | 120.5 | -142.3 | 173.8 | 30.0 | 54.7 |
| 3 | 433.4 | 121.9 | -140.1 | 177.6 | 31.8 | 56.8 |
| 4 | 441.6 | 124.2 | -142.0 | 180.9 | 32.7 | 59.2 |
| YEAR | 431.9 | 121.0 | -142.9 | 175.9 | 30.7 | 56.0 |
| % change from '87 | 5.4 | 10.1 | -6.5 | 7.7 | 16.7 | 16.7 |
| 1989:1 | 448.1 | 125.9 | -130.1 | 183.4 | 34.1 | 60.4 |
| 2 | 455.2 | 127.9 | -129.0 | 185.2 | 35.7 | 61.3 |
| 3 | 459.6 | 129.8 | -116.2 | 187.5 | 38.3 | 62.9 |
| 4 | 461.8 | 132.1 | -120.1 | 190.4 | 39.4 | 63.7 |
| YEAR | 456.2 | 128.9 | -123.8 | 186.6 | 36.9 | 62.1 |
| % change from '88 | 5.6 | 6.5 | -13.3 | 6.1 | 20.3 | 10.9 |

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

### 1987 FORECAST DATA

Percent Change from July 1987 Forecast

| | |
|---|---|
| + .18% | Comp. of Employees |
| + .11% | Average Weekly Earnings |
| - .21% | Personal Income |
| - .29% | Personal Disp. Income |
| - 1.60% | Personal Savings |
| - 4.84% | Corp. After Tax Earnings |

OPTIMISTIC FORECAST DATA FOR THE BALANCE OF THIS YEAR AND NEXT WITH NO SIGNIFICANT SLOWING DOWN OR EVEN DECLINING.

Latest data on corporate after-tax profits for 1987:2 shows a health gain of 4.2% after a 3.7% decline in 1987:1. Continuous good gains are forecasted for each quarter.

The annual percent changes forecasted for Personal Income, Personal Disposable income and their components remain essentially unchanged when compared to the previous forecast.

Amounts have been changed, however, because a recent significant revision of the 1986 Personal Income and Personal Disposable Income estimates by the Commerce Department. New forecast data point to continuous, solid increases with no slowdown or downturns for the rest of this year and afterwards.

### TABLE 1.60
### INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1986* | 3534.3 | 3022.1 | 2504.9 | 126.8 | 130.6 | 382.0 |
| 1987:1* | 3662.0 | 3125.9 | 2589.9 | 129.0 | 138.4 | 391.2 |
| 2* | 3713.4 | 3135.4 | 2623.4 | 134.2 | 114.0 | 403.1 |
| 3 | 3698.1 | 3113.0 | 2669.2 | 140.5 | 100.4 | 405.1 |
| 4 | 3770.2 | 3177.5 | 2740.7 | 157.2 | 108.2 | 407.0 |
| YEAR | 371[illegible].9 | 3137.9 | 2655.8 | 140.2 | 115.2 | 401.6 |
| % change from '86 | 5.0 | 3.8 | 6.0 | 10.6 | -11.8 | 5.1 |
| 1988:1 | 3942.7 | 3346.9 | 2796.7 | 163.1 | 116.5 | 409.1 |
| 2 | 3998.8 | 3396.9 | 2844.3 | 170.5 | 114.7 | 413.8 |
| 3 | 4067.6 | 3456.6 | 2913.6 | 176.1 | 116.5 | 418.3 |
| 4 | 4277.9 | 3655.4 | 2954.8 | 180.4 | 119.9 | 420.6 |
| YEAR | 4071.7 | 3463.9 | 2877.3 | 172.5 | 116.9 | 415.5 |
| % change from '87 | 9.7 | 10.4 | 8.3 | 23.0 | 1.4 | 3.4 |
| 1989:1 | 4336.0 | 3704.5 | 2980.1 | 184.0 | 120.1 | 422.4 |
| 2 | 4372.3 | 3731.9 | 2980.6 | 187.9 | 126.5 | 425.5 |
| 3 | 4558.1 | 3911.0 | 3031.4 | 192.5 | 130.0 | 427.8 |
| 4 | 4586.3 | 3934.1 | 3081.3 | 196.3 | 133.1 | 428.9 |
| YEAR | 4463.2 | 3820.4 | 3018.3 | 190.2 | 127.4 | 426.1 |
| % change from '88 | 9.6 | 10.3 | 4.9 | 10.2 | 9.0 | 2.6 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | |
|---|---|
| + 1.00% | Time Deposits |
| + .56% | Consumer & Demand Deposits |
| + .42% | Mortg. at S & L Assns. |
| + .07% | Comm. & Indust. Loans at Banks |
| + .08% | Large Denom. Time Desposits |
| + .23% | Consumer Install. Credit |

KEDI ANTICIPATES THAT THE FEDERAL RESERVE SYSTEM WILL TIGHTEN THE MONETARY POLICY ONLY MARGINALLY IN THE MONTHS AHEAD, AND THEN IN ABOUT SIX MONTHS, TAKE A MORE RELAXED STANCE.

The current growth of money supply cannot be restricted significantly for a longer time because of still high trade deficit, needs of the stock market, and needs of the Federal budget--these three factors will continue to pressure the money supply upwards this year and well beyond.

Some more restrictions are seen in the area of credit aggregates. KEDI forecast calls for slowing down in the coming half year, in consumer credit, mortgage credit, commercial and industrial loans, and other types of credit. Relaxation is expected not earlier than in Spring 1988.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDICATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 673.2 | 2681.8 | 577.8 | 517.6 | 447.1 | 553.1 |
| 1987:1* | 738.2 | 2822.8 | 579.5 | 520.4 | 450.1 | 547.4 |
| 2* | 750.1 | 2858.9 | 585.2 | 526.1 | 465.1 | 550.8 |
| 3 | 758.2 | 2898.2 | 599.4 | 531.4 | 476.5 | 554.2 |
| 4 | 765.4 | 2974.3 | 610.3 | 547.9 | 483.2 | 559.0 |
| YEAR | 753.0 | 2888.6 | 610.3 | 547.9 | 483.2 | 559.0 |
| % change from '86 | 11.9 | 7.7 | 5.6 | 5.3 | 8.1 | 1.1 |
| 1988:1 | 773.2 | 3085.7 | 618.2 | 550.8 | 488.4 | 562.8 |
| 2 | 784.3 | 3136.4 | 625.9 | 553.4 | 492.8 | 566.4 |
| 3 | 798.9 | 3173.6 | 635.9 | 558.3 | 497.4 | 576.1 |
| 4 | 816.5 | 3239.8 | 659.8 | 569.8 | 503.1 | 580.5 |
| YEAR | 793.2 | 3158.9 | 659.8 | 569.8 | 503.1 | 580.5 |
| % change from '87 | 5.3 | 9.4 | 8.1 | 4.0 | 4.1 | 3.8 |
| 1989:1 | 819.3 | 3289.6 | 669.4 | 571.6 | 508.9 | 584.3 |
| 2 | 824.1 | 3342.7 | 674.0 | 510.0 | 513.4 | 589.2 |
| 3 | 836.5 | 3423.1 | 684.8 | 573.5 | 519.6 | 590.2 |
| 4 | 843.2 | 3491.8 | 701.2 | 577.4 | 530.4 | 607.5 |
| YEAR | 830.8 | 3386.8 | 701.2 | 577.4 | 530.4 | 607.5 |
| % change from '88 | 4.7 | 7.2 | 6.3 | 1.3 | 5.4 | 4.7 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

IT IS ANTICIPATED THAT THE RECENT, MODERATE INCREASES IN INTEREST RATES ARE FINAL AND NO SIGNIFICANT FURTHER TIGHTENING WILL TAKE PLACE.

The pace of the economy is not, at the present time, and will not be in the foreseeable future, as strong to justify further interest rates increases motivated by actions of the Federal Reserve.

It is anticipated that the "critical period" for the monetary and credit policies will last approximately one half of the year, i.e., the dilemma the Fed is facing:

* ON ONE SIDE, there is still a need for foreign funds though the Federal deficit has declined considerably, which means interest rates have to be kept relatively high to attract foreign capital.

* ON THE OTHER HAND, interest rates cannot be raised too much so as to cause troubles to many U.S. industries.

So, KEDI anticipates that the Fed will keep the interest rates at the present levels or slightly higher, for about half a year, and then, will resume its policy of lowering the interest rates, specifically in the second half of the year.

1987
FORECAST
DATA

Percent Change
from
August 1987
Forecast

| | |
|---|---|
| +18.48% | Treas. Bills 3 mo. Yield |
| + 6.23% | 20 yr Govt. Bond Yield |
| + 3.89% | Aaa Corp. Bond Rate |
| + 2.11% | Prime Rate |
| + .15% | Conv. Mortg. Rate |
| - .18% | S & P's 500 Avg. |

### TABLE 1.80
### INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR<br>Unit | Treas. bills 3 mo. yield<br>% | Prime rate<br>% | Conv. mortg rate<br>% | Aaa corp. bond rate<br>% | 30 yr. Govt. bonds yield<br>% | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Year & Qtr. | | | | | | |
| 1986* | 5.97 | 8.33 | 9.82 | 9.02 | 7.80 | 236.34 |
| 1987:1* | 5.53 | 7.50 | 9.06 | 8.37 | 7.87 | 279.30 |
| 2* | 5.66 | 8.05 | 8.98 | 9.17 | 8.53 | 293.27 |
| 3 | 6.27 | 8.54 | 10.11 | 9.22 | 9.44 | 318.26 |
| 4 | 6.46 | 8.75 | 10.14 | 9.38 | 9.68 | 324.85 |
| YEAR | 5.98 | 8.21 | 9.57 | 9.04 | 8.88 | 303.92 |
| % change from '86 | .2 | -1.4 | -2.5 | .2 | 13.8 | 28.6 |
| 1988:1 | 6.80 | 8.73 | 10.21 | 9.34 | 9.70 | 328.51 |
| 2 | 6.17 | 8.56 | 9.98 | 9.18 | 9.31 | 335.49 |
| 3 | 6.12 | 8.34 | 9.83 | 9.98 | 8.64 | 346.86 |
| 4 | 5.98 | 8.27 | 9.80 | 8.90 | 8.00 | 345.70 |
| YEAR | 6.27 | 8.47 | 9.96 | 9.35 | 8.91 | 339.14 |
| % change from '87 | 4.8 | 3.2 | 4.0 | 3.5 | .4 | 11.6 |
| 1989:1 | 5.83 | 8.45 | 9.85 | 8.90 | 8.16 | 354.23 |
| 2 | 5.89 | 8.50 | 9.90 | 9.12 | 8.06 | 359.34 |
| 3 | 6.11 | 8.59 | 9.61 | 9.14 | 8.24 | 357.16 |
| 4 | 9.13 | 8.75 | 9.47 | 9.28 | 8.57 | 354.08 |
| YEAR | 6.75 | 8.57 | 9.71 | 9.11 | 8.26 | 356.20 |
| % change from '88 | 7.8 | 1.2 | -2.5 | -2.6 | -7.3 | 5.0 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of rates of growth (% change in const. 1982 $) has been selected for comparison. Actual numbers for 1985 and 1986 are in the Survey of Current Business, July 1987 issue, Table 1.2 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data have been obtained from data in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

### TABLE 2.00

### COMPARISONS OF ACCURACY OF PREDICTIONS

(% change of GNP in const. 1982 $)
Actual figure: 2.9

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy (percent difference) |
|---|---|---|---|
| The Journal of Business Forecasting, p.51 | 1/86 | 2.1 | - .8 |
| Mellon Bank, pg. 52 | 1/86 | 1.9 | -1.0 |
| L. D. Reece, Cities Service Oil and Gas, p. 53 | 1/86 | 1.9 | -1.0 |
| Wharton Econometrics, p. 54 | 1/86 | 1.9 | -1.0 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 1.5 | -1.4 |
| Georgia State Univ., p. 66 | 2/86 | 2.2 | - .7 |
| KEDI, Inc., p. 67 | 2/1/86 | 2.0 | - .9 |
| Armco, Inc., p. 59 | 1/22/86 | 1.6 | -1.3 |
| Shearson Lehman Brothers, p. 61 | 1/23/86 | 2.1 | - .8 |
| John J. McAuley, Fordham Univ., p. 62 | 1/24/86 | 1.5 | -1.4 |
| Chase Econometrics, p. 65 | 1/29/86 | 1.5 | -1.4 |
| The First National Bank of Chicago, p.56 | 1/7/86 | 2.6 | - .3 |
| Citicorp Economic Services, p. 57 | 1/8/86 | 3.4 | + .5 |
| Standard & Poor's Corporation, p. 58 | 1/16/86 | 2.4 | - .5 |
| Data Resources, Inc. p. 60 | 1/22/86 | 2.3 | - .6 |
| AmeriTrust Compan;y, p. 63 | 1/27/86 | 3.4 | + .5 |
| Money Market Services, Inc., p. 64 | 1/27/86 | 2.9 | .0 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |

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# KEDI ECONOMIC SURVEY

October 1, 1987

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SOURCES:

U.S.Department of Commerce third estimate of 1987:2, National Income and Product data, September 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, September 1987.

The latest available data on prices, employment, industrial and financial developments.

---

# 0.00 INTRODUCTION

## 0.01 EXECUTIVE SUMMARY

## HIGHLIGHTS

---

### Real Growth

There are some good signals that show the economy on a good growth path.

### Prices

The August 5.8% annual rate surge of the consumer price index is considered temporary and should not repeat again.

### Employment & Labor

The expected September drop in unemployment rate suggests that the economy is on a good growth rate.

### Housing

The housing cycle is winding down and will only improve slightly in 1988.

### Automobiles

Despite generous incentives, mid-September data of car sales dropped below the expectations of many economists.

### Budgets

It is anticipated that the Gramm-Rudman deficit reduction act will remain in force and will not be further amended.

### Income

The outlook for corporate profits for the rest of 1987 and in 1988 remains optimistic.

### Money & Credit

It is anticipated that the Federal Reserve Monetary and credit policies will return to a more relaxed position in 1988:2.

### Interest Rates, Yields & Securities Prices

Interest rates are expected to stabilize at November-December levels through the first quarter of 1988.

## 0.02 ASSUMPTIONS

| | | Last Update |
|---|---|---|
| 1. | In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period. | April 1986 |
| 2. | A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will tighten a bit to the end of this year. More tightening is not expected earlier than in 1989 | July 1987 |
| 3. | In 1988 and 1989 good crops in all main producing countries are anticipated. | September 1987 |
| 4. | Foreign trade with China will expand in 1988 and following years. | May 1987 |
| 5. | Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.0%; Italy 2.1% Great Britain 2.1%; France 2.0%; Japan 3.1%; Canada 2.6% | August 1986 |
| 6. | No drastic changes in international relationships are anticipated. | Permanent Assumption |

## 0.03 FORECAST HIGHLIGHTS

- Table 0.00 on page 3 shows forecast data of selected indicators of the October 1987 KEDI forecast.
- In 1987 moderate growth is expected. It will accelerate in 1988.
- The upward trend will continue throughout 1990-1991.
- Forecast data for 1988-1991 do not point to recession or major downturn.
- In 1987 interest rates will remain, in average, at low levels throughout most of the year. Some increases are anticipated in late 1987 and in 1989.
- Federal budget deficits will keep declining in 1988 and the following fiscal years.
- The 1987 export-import gap will start closing to a more acceptable level.

## TABLE 0.00

## KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

| Indicator | Unit | 1986 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Gross national | bil. 82$ | 3713.3 | 4178.5 | 4278.8 | 4390.1 |
| product, p. 5 | % change | 2.9 | 3.0 | 2.4 | 2.6 |
| Index of indust. | 1977=100 | 125.1 | 141.8 | 146.5 | 151.4 |
| prod., p. 5 | % change | 1.0 | 3.1 | 3.3 | 3.4 |
| Capacity | % | 79.6 | 81.3 | 80.5 | 79.8 |
| utiliz., p. 5 | % change | -1.0 | 0.0 | -1.0 | -.9 |
| Unemployment | % | 7.0 | 5.9 | 6.5 | 6.4 |
| rate, p. 5 | % change | -3.1 | 1.0 | -1.1 | -.9 |
| Private housing | mil.units | 1.8 | 1.9 | 1.8 | 1.9 |
| starts, p. 5 | % change | -4.2 | 3.3 | -2.0 | 3.5 |
| Car sales, | mil.units | 11.5 | 10.5 | 10.7 | 11.1 |
| p. 5 | % change | 3.2 | 2.9 | 1.0 | 4.0 |
| Implicit GNP | 1982=100 | 114.5 | 134.8 | 139.7 | 144.8 |
| price def.,p.11 | % change | 2.6 | 3.6 | 3.6 | 3.7 |
| Consumer Price | 1967=100 | 328.4 | 383.1 | 395.0 | 409.2 |
| Index, p. 11 | % change | 1.9 | 3.8 | 3.1 | 3.6 |
| Prod.Price Index | 1967=100 | 289.6 | 345.5 | 361.0 | 374.8 |
| (fin.goods),p.11 | % change | -1.6 | 4.2 | 4.5 | 3.8 |
| Federal Deficit | bil. $ | -220.0 | -110.2 | -89.2 | -71.6 |
| p. 21 | % change | 8.2 | -11.2 | -19.1 | -19.7 |
| Personal Income | bil. $ | 3534.3 | 4742.3 | 5060.1 | 5439.6 |
| p. 23 | % change | 5.8 | 6.9 | 6.7 | 7.5 |
| Prime Rate | % | 8.3 | 8.1 | 8.7 | 9.4 |
| p. 27 | % change | -11.6 | -4.8 | 7.2 | 7.8 |
| Mortgage Rate | % | 9.8 | 10.2 | 9.9 | 10.1 |
| p. 27 | % change | -11.7 | 5.8 | -2.7 | 1.8 |
| Currency+demand | bil. $ | 673.2 | 887.0 | 944.6 | 1008.8 |
| deposits , p. 25 | % change | 13.4 | 7.5 | 6.5 | 6.8 |
| Commercial+ind. | bil. $ | 517.6 | 606.3 | 552.0 | 619.7 |
| loans, p. 25 | % change | 5.3 | 3.2 | 2.9 | 2.1 |
| Raw steel | mil.sh.tons | 87.4 | 91.2 | 90.8 | 91.3 |
| production | % change | -.1 | .4 | .9 | .4 |
| Electric power | mil.kw-hr | 2614 | 3355.8 | 3342.8 | 3499.6 |
| production | % change | 6.0 | 3.8 | 3.7 | 4.7 |
| Bituminous coal | mil.sh.tons | 872 | 936 | 973.3 | 984.1 |
| production | % change | -.1 | 1.1 | 1.3 | 1.5 |
| Crude oil | avg. daily bbl. | 3261 | 2361 | 2371.7 | 2426.2 |
| output | % change | .8 | 2.1 | 2.2 | 2.3 |
| Retail sales | bil. $ | 1454.4 | 1865.0 | 1982.5 | 2121.3 |
| p. 7 | % change | 6.0 | 7.0 | 6.3 | 7.0 |

Numbers in "% change" rows show percent changes over the previous year.

## 1.10 REAL GROWTH, CONSUMER SPENDING, AND RETAIL SALES

### 1.11 REAL GROWTH

See Table 1.11
Page 5

THERE ARE SOME GOOD SIGNALS THAT SHOW THE ECONOMY ON A GOOD GROWTH PATH DESPITE TURBULENT EVENTS IN STOCK MARKET:

* The September Survey of Purchasing Managers composite index rose to 60.7%--the highest level since April 1984, and 14th month of consecutive increases.

* Unfilled orders in manufacturing increased considerably in August from $206.07 in July to $206.07 billion. The small decline in new orders is considered temporary.

* Index of leading indicators rose in August to 192.6% from the revised 191.4% in July.

* The July and August U.S. Department of Commerce Survey has shown that U.S. business firms plan capital spending of $389.07 billion, up from $379.47 billion in 1986--that is 1.4% after inflation adjustment.

All of this points to probable developments in the U. S. economy in the next half year, approximately. Add to that a good outlook for employment, increasing strength of the manufacturing sector, and declining Federal deficit--that translates into good prospects of the U.S. economy in 1988.

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + 2.07% | Private Housing Starts |
| + 1.04% | Unemployment |
| + .31% | Capacity Util. |
| - .04% | Index Indus. Prod. |
| - .46% | GNP |
| - .72% | Autos |

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | GNP | Index of ind. prod** | Unem- ploy ment | Capacity util'n rate** | Private housing starts | Auto sales |
|---|---|---|---|---|---|---|
| Unit | $82 bil. | 1977=100 | % | % | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 125.1 | 7.04 | 79.6 | 1.805 | 11.5 |
| 1987:1* | 3772.2 | 127.0 | 6.67 | 80.1 | 1.822 | 9.6 |
| 2* | 3795.3 | 128.3 | 6.23 | 80.2 | 1.612 | 9.5 |
| 3 | 3825.2 | 130.6 | 5.97 | 81.0 | 1.662 | 10.1 |
| 4 | 3851.3 | 131.3 | 5.96 | 81.3 | 1.672 | 9.4 |
| YEAR | 3811.0 | 129.3 | 6.21 | 79.6 | 1.692 | 9.7 |
| % change from '86 | 2.6 | 3.4 | -11.8 | 0.0 | -6.3 | -16.1 |
| 1988:1 | 3870.0 | 132.4 | 5.96 | 81.0 | 1.620 | 9.6 |
| 2 | 3881.4 | 133.8 | 5.88 | 81.1 | 1.753 | 10.0 |
| 3 | 3915.3 | 135.4 | 5.80 | 81.4 | 1.806 | 11.1 |
| 4 | 4050.6 | 135.8 | 5.72 | 81.9 | 1.762 | 10.6 |
| YEAR | 3929.3 | 134.4 | 5.84 | 81.3 | 1.735 | 10.3 |
| % change from '87 | 3.1 | 3.9 | -5.9 | 2.2 | 2.6 | 7.0 |
| 1989:1 | 4044.1 | 136.5 | 5.74 | 81.6 | 1.685 | 10.0 |
| 2 | 4051.4 | 137.0 | 5.86 | 81.5 | 1.835 | 10.4 |
| 3 | 4057.5 | 137.9 | 5.88 | 81.0 | 1.920 | 10.5 |
| 4 | 4074.3 | 138.7 | 5.92 | 81.1 | 1.827 | 10.1 |
| YEAR | 4056.8 | 137.5 | 5.85 | 81.3 | 1.817 | 10.2 |
| % change from '88 | 3.2 | 2.4 | .2 | -.1 | 4.7 | -.7 |

*Historical data.
**New, revised series

## 1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

NO SIGNIFICANT UPS OR DOWNS IN CONSUMER SPENDING ARE PREDICTED FOR THE BALANCE OF THIS YEAR AND 1988.

The latest data on consumer spending and retail sales are optimistic:

- In August, consumer spending was 1.5% after the .7% increase in July over June. Excluding auto sales, consumer outlays still increased by .6% in August.
- Forecast data for the rest of the year and for 1988 for consumer spending show regular increments in all main categories: durables, nondurables, and services.
- Some slowing down, mainly in purchases of consumer durables are expected in 1989.

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| - .11% | Pers. Con. Exp. Durables |
| - .34% | Pers. Con. Exp. Services |
| - .62% | Pers. Con. Exp. Nondurable |
| - .88% | Retail Sales Durable |
| - 1.03% | Retail Sales Total |
| - 1.11% | Retail Sales Nondurable |

## TABLE 1.12

## CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

| | *--Personal Cons. Expend.-** | | | ------Retail Sales-------* | | |
|---|---|---|---|---|---|---|
| INDICATOR | Durables | Nondurables | Services | Total | Durables | Nondurables |
| Unit | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ | bil.$ |
| Year & Qtr. | | | | | | |
| 1986* | 402.4 | 939.4 | 1458.0 | 1454.4 | 568.1 | 888.3 |
| 1987:1* | 396.1 | 969.9 | 1527.7 | 1483.2 | 536.4 | 926.8 |
| 2* | 409.0 | 982.1 | 1552.6 | 1515.6 | 557.1 | 958.5 |
| 3 | 411.2 | 989.1 | 1612.8 | 1560.6 | 577.9 | 982.7 |
| 4 | 410.1 | 992.7 | 1667.1 | 1580.2 | 592.8 | 987.4 |
| YEAR | 406.6 | 983.5 | 1590.0 | 1534.9 | 566.0 | 963.8 |
| % change from '86 | 1.0 | 4.7 | 9.1 | 5.5 | -.4 | 8.5 |
| 1988:1 | 407.5 | 1001.5 | 1710.9 | 1596.2 | 617.4 | 978.8 |
| 2 | 415.6 | 1023.1 | 1723.5 | 1615.2 | 630.2 | 985.0 |
| 3 | 429.7 | 1033.1 | 1757.8 | 1659.3 | 661.8 | 997.5 |
| 4 | 424.5 | 1040.2 | 1952.2 | 1679.4 | 672.0 | 1007.4 |
| YEAR | 419.3 | 1024.5 | 1786.1 | 1637.5 | 645.4 | 992.2 |
| % change from '87 | 3.1 | 4.2 | 12.3 | 6.7 | 14.0 | 2.9 |
| 1989:1 | 426.2 | 1051.1 | 1966.7 | 1717.2 | 586.4 | 1130.8 |
| 2 | 433.8 | 1063.2 | 1988.5 | 1731.3 | 690.6 | 1040.7 |
| 3 | 447.2 | 1075.6 | 2140.5 | 1750.4 | 709.1 | 1041.3 |
| 4 | 446.1 | 1088.2 | 2144.2 | 1773.1 | 719.5 | 1053.6 |
| YEAR | 438.3 | 1069.5 | 2060.0 | 1743.0 | 676.4 | 1066.6 |
| % change from '88 | 4.5 | 4.4 | 15.3 | 6.4 | 4.8 | 7.5 |

## 1.13 REAL GNP

See Table 1.13
Page 9

IT IS ANTICIPATED THAT THE ADMINISTRATION WILL TAKE MORE VIGOROUS STEPS TOWARD A SIGNIFICANT DECLINE OF THE U.S. TRADE IMBALANCE IN 1988.

The U. S. Department of Commerce third estimates of Real GNP and components show further improvements when compared to their previous data: higher GNP, more personal consumption, and less Federal and State and Local purchase, and a lower trade deficit. However, the declines in the trade deficit still remain meager and not sufficient to bring the U.S. trade imblance to a more tolerable level. Compared to the $145.8 Bil. excess of imports over exports in 1986, data for for 1987:1 show a decline down to $135.2, and for 1987:2, a further decline by only $2.5 bil., seasonally adjusted.

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + .95% | Net Exports |
| - .06% | Federal Govt. Purch. |
| - .21% | State Local Purch. |
| - .18% | Gross Private Dom. Inv. |
| - .46% | GNP |
| - .56% | Pers. Cons. Expend. |

## TABLE 1.13
## REAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----------Gross National Product---------------* | | | | | |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt.dom. investm. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. | $82 bil. |
| Year & Qtr. | | | | | | |
| 1986* | 3713.3 | 2450.5 | 654.0 | -145.8 | 332.5 | 422.1 |
| 1987:1* | 3872.2 | 2475.9 | 671.8 | -135.2 | 327.3 | 432.3 |
| 2* | 3795.3 | 2487.5 | 673.7 | -132.7 | 332.6 | 434.4 |
| 3 | 3825.2 | 2523.8 | 660.9 | -131.4 | 335.9 | 436.0 |
| 4 | 3851.3 | 2538.3 | 663.1 | -126.8 | 338.1 | 438.6 |
| YEAR | 3811.0 | 2506.4 | 667.4 | -131.5 | 333.5 | 435.3 |
| % change from '86 | 2.6 | 2.3 | 2.0 | -9.8 | .3 | 3.1 |
| 1988:1 | 3870.0 | 2543.6 | 667.3 | -123.3 | 340.4 | 442.0 |
| 2 | 3881.4 | 2539.7 | 672.0 | -119.7 | 344.5 | 444.9 |
| 3 | 3915.3 | 2556.4 | 673.2 | -110.4 | 348.0 | 448.1 |
| 4 | 4050.6 | 2685.8 | 678.7 | -115.0 | 351.0 | 450.1 |
| YEAR | 3929.3 | 2577.9 | 672.8 | -117.1 | 346.0 | 446.3 |
| % change from '87 | 3.1 | 2.9 | .8 | -11.0 | 3.7 | 2.5 |
| 1989:1 | 4044.1 | 2674.5 | 679.3 | -115.9 | 353.0 | 453.2 |
| 2 | 4051.4 | 2671.6 | 681.0 | -114.1 | 356.2 | 456.7 |
| 3 | 4057.5 | 2674.2 | 676.3 | -111.8 | 359.8 | 459.0 |
| 4 | 4074.3 | 2680.8 | 680.2 | -112.1 | 362.9 | 462.5 |
| YEAR | 4056.8 | 2678.8 | 679.2 | -113.5 | 350.1 | 457.9 |
| % change from '88 | 3.2 | 3.9 | 1.0 | -3.1 | 1.2 | 2.6 |

*Historical data.

## 1.20 PRICES AND NOMINAL GNP

### 1.21 PRICES

See Tables 1.21 - page 11

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | | |
|---|---|---|
| + | .22% | Consumer Price Index |
| - | .06% | Pers. Cons. Expend. |
| - | .02% | GNP |
| - | .15% | State Local Purch. |
| - | .33% | Producer Price Index |
| - | .46% | Federal Govt. Purch. |

THE AUGUST 5.8% ANNUAL RATE SURGE OF THE CONSUMER PRICE INDEX IS CONSIDERED TEMPORARY AND SHOULD NOT REPEAT AGAIN IN THE FORESEEABLE FUTURE.

Forecast data for CPI for the rest of this year and for 1988-1989 have remained essentially unchanged when compared to those published in the September KEDI Survey.

Forecast data for PPI also call for moderate increases within tolerable limits.

It is anticipated that factors that have contributed to the low rate of inflation in 1986 and this year will remain in force in 1988: no above average wage increases; plentiful supply of materials and consumer goods; no significant upward pressures on costs and prices due to the low international value of the dollar.

### TABLE 1.21
### PRICES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

|  | *---Indexes--* |  | *-------Price deflators--------* |  |  |  |
|---|---|---|---|---|---|---|
| INDICATOR | Cons. price index n.s.a.** | Prod. price index n.s.a.** | Gross Nat'l Prod. | Pers. cons. expend. | Fed. govt. purch. | State local purch. |
| Unit | 1967= 100 | 1967= 100 | 1982= 100 | 1982= 100 | 1982= 100 | 1982= 100 |
| Year & Qtr. |  |  |  |  |  |  |
| 1986* | 328.4 | 289.7 | 114.1 | 114.3 | 110.2 | 119.3 |
| 1987:1* | 334.8 | 292.1 | 116.1 | 116.9 | 112.1 | 122.4 |
| 2* | 338.8 | 296.0 | 117.1 | 118.3 | 114.1 | 123.9 |
| 3 | 342.5 | 298.8 | 118.5 | 119.4 | 115.2 | 125.6 |
| 4 | 345.5 | 303.2 | 119.8 | 120.9 | 116.7 | 127.3 |
| YEAR | 340.4 | 297.5 | 117.9 | 118.9 | 114.5 | 124.8 |
| % change from '86 | 3.7 | 2.7 | 3.3 | 4.0 | 3.9 | 4.6 |
| 1988:1 | 348.9 | 307.6 | 121.1 | 122.7 | 118.1 | 128.2 |
| 2 | 352.0 | 312.2 | 122.4 | 124.5 | 118.9 | 129.3 |
| 3 | 355.4 | 317.6 | 123.5 | 126.0 | 119.8 | 131.8 |
| 4 | 358.8 | 320.0 | 124.9 | 127.2 | 121.0 | 132.7 |
| YEAR | 353.8 | 314.4 | 123.0 | 125.1 | 119.5 | 130.5 |
| % change from '87 | 3.9 | 5.7 | 4.3 | 5.2 | 4.3 | 4.6 |
| 1989:1 | 362.7 | 323.8 | 126.3 | 128.8 | 122.1 | 133.1 |
| 2 | 366.3 | 329.0 | 127.8 | 130.5 | 124.1 | 135.2 |
| 3 | 370.6 | 333.8 | 132.9 | 137.0 | 126.2 | 137.6 |
| 4 | 376.8 | 339.7 | 133.5 | 137.2 | 128.2 | 140.2 |
| YEAR | 369.1 | 331.6 | 130.1 | 133.4 | 125.1 | 136.5 |
| % change from '88 | 4.3 | 5.5 | 5.8 | 6.6 | 4.8 | 4.6 |

*Historical data.

**CPI: All Urban Consumers; PPI: Finished Goods.

## 1.22 NOMINAL GNP

See Table 1.22 - page 13

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + 3.09% | Net Exports |
| - .24% | Gross Private Dom. Inv. |
| - .39% | State Local Purch. |
| - .40% | Pers. Cons. Expend. |
| - .46% | GNP |
| - .48% | Federal Govt. Purch. |

WHILE NEGATIVE NET EXPORTS REMAIN UNCOMFORTABLY HIGH, OTHER COMPONENTS OF NOMINAL GNP ARE IN LINE, CONFIRMING AN EXPECTED GROWTH OF THE ECONOMY FOR THE REST OF THIS YEAR AND IN 1988.

The 1987:2, third and final estimate of nominal GNP and components provides a bit more optimism when compared to the second estimate, mainly due to the lower estimates of price deflators. However, the data for net exports is not good: $-118.4 bil. compared to $-112.2 bil. in 1987:1. KEDI forecast data for 1987:3 and afterwards show that the 1987:2 figure represents the peak, and gradual, slow declines are predicted to take place afterwards.

## TABLE 1.22
## NOMINAL GNP

Quarterly data are seasonally adjusted at annual rates.

| | *-----Gross National Product | | | | | -----* |
|---|---|---|---|---|---|---|
| INDICATOR | Total | Pers. cons. expend. | Gross pvt. dom invest. | Net exports | Fed. govt. purch. | State local purch. |
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 4235.0 | 2799.8 | 671.0 | -105.5 | 366.2 | 503.5 |
| 1987:1* | 4377.7 | 2893.8 | 699.7 | -112.2 | 366.9 | 529.3 |
| 2* | 4445.1 | 2943.7 | 702.6 | -118.4 | 379.6 | 537.6 |
| 3 | 4532.9 | 3013.1 | 703.2 | -118.0 | 387.0 | 547.6 |
| 4 | 4613.9 | 3069.9 | 708.0 | -116.9 | 394.6 | 558.3 |
| YEAR | 4492.2 | 2979.6 | 703.4 | -116.4 | 382.0 | 543.2 |
| % change from '86 | 6.1 | 6.4 | 4.8 | 10.3 | 4.3 | 7.9 |
| 1988:1 | 4686.6 | 3119.9 | 711.9 | -113.9 | 402.0 | 566.6 |
| 2 | 4750.8 | 3162.2 | 715.3 | -111.5 | 409.6 | 575.3 |
| 3 | 4835.4 | 3220.6 | 717.0 | -109.7 | 416.9 | 590.6 |
| 4 | 5059.2 | 3416.9 | 725.6 | -105.3 | 424.7 | 597.3 |
| YEAR | 4833.0 | 3229.9 | 717.5 | -110.1 | 413.3 | 582.4 |
| % change from '87 | 7.6 | 8.4 | 2.0 | -5.4 | 8.2 | 7.2 |
| 1989:1 | 5107.7 | 3444.0 | 731.1 | -101.6 | 431.0 | 603.2 |
| 2 | 5177.7 | 3485.5 | 733.2 | -100.5 | 442.0 | 617.5 |
| 3 | 5392.4 | 3663.3 | 737.1 | -93.6 | 454.1 | 631.6 |
| 4 | 5439.2 | 3678.5 | 736.3 | -89.3 | 465.2 | 648.4 |
| YEAR | 5278.9 | 3578.2 | 734.4 | -96.2 | 448.1 | 625.2 |
| % change from '88 | 9.2 | 10.8 | 2.4 | -12.6 | 8.4 | 7.3 |

*Historical data.

## 1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + 1.04% | Unemployment rate |
| 0.00% | Agriculture |
| - .02% | Population |
| - .12% | Civilian Labor Force |
| - .22% | Total Employed |
| - .23% | Non-Agri. |

THE EXPECTED SEPTEMBER DROP IN UNEMPLOYMENT RATE SUGGESTS THAT THE ECONOMY IS ON A GOOD GROWTH RATE.

Forecast data for the rest of the year and for 1988 show the encouraging trend for employment in goods producing industries: main increments are predicted for nondurable industries, closely followed by increases in employment in the durable segment of manufacturing.

Outlook for employment in the construction sector remains mixed: good level is predicted for roads repair and construction, apartment housing, and public projects, especially those of state and local governments.

No significant improvements are expected for single-family housing, and non-residential construction, especially offices and plants.

## TABLE 1.30
## EMPLOYMENT & LABOR

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Population | Civil. labor force | *-------Employment-------* | | | Unemployment rate |
|---|---|---|---|---|---|---|
| | | | Total | Agricult. | Non-agric. | |
| Unit | mil. | mil. | mil. | mil. | mil. | % |
| Year & Qtr. | | | | | | |
| 1986* | 241.5 | 119.5 | 109.6 | 3.2 | 106.4 | 7.04 |
| 1987:1* | 242.9 | 119.8 | 111.2 | 3.2 | 108.1 | 6.67 |
| 2* | 243.8 | 121.5 | 113.9 | 3.1 | 110.8 | 6.23 |
| 3 | 244.6 | 122.3 | 115.0 | 3.1 | 111.9 | 5.97 |
| 4 | 246.3 | 123.2 | 115.9 | 3.1 | 112.8 | 5.96 |
| YEAR | 244.4 | 121.7 | 114.5 | 3.1 | 111.4 | 6.21 |
| % change from '86 | 1.2 | 1.8 | 1.7 | -2.3 | 4.7 | -11.83 |
| 1988:1 | 247.5 | 123.8 | 116.4 | 3.1 | 113.3 | 5.96 |
| 2 | 249.6 | 124.7 | 117.4 | 3.1 | 114.3 | 5.88 |
| 3 | 250.4 | 125.6 | 118.3 | 3.1 | 115.2 | 5.80 |
| 4 | 251.5 | 126.5 | 119.3 | 3.1 | 116.2 | 5.72 |
| YEAR | 249.8 | 125.2 | 117.8 | 3.1 | 114.7 | 5.84 |
| % change from '87 | 2.2 | 2.8 | 3.0 | -.8 | 3.0 | -5.92 |
| 1989:1 | 253.9 | 127.3 | 120.0 | 3.1 | 116.9 | 5.74 |
| 2 | 254.3 | 1285.0 | 1209.7 | 3.0 | 1206.7 | 5.86 |
| 3 | 255.1 | 129.0 | 121.4 | 3.0 | 118.4 | 5.88 |
| 4 | 256.0 | 139.8 | 131.5 | 3.0 | 128.5 | 5.92 |
| YEAR | 254.8 | 420.3 | 395.7 | 3.1 | 392.6 | 5.85 |
| % change from '88 | 2.0 | 235.8 | 235.4 | 0.0 | 242.2 | .17 |

*Historical data.

## 1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + .42% | Multiple Family Housing Starts |
| + .11% | 1-Family Unit price Existing |
| + .04% | 1-Family Unit price New |
| + .03% | Permits Issued |
| - .58% | Single Family Housing Starts |
| - 1.16% | Mobile Home Shipments |

THE HOUSING CYCLE IS WINDING DOWN AND WILL ONLY IMPROVE SLIGHTLY IN 1988.

The relatively low level of residential and non-residential housing is expected to persist in 1988 with a better outlook afterwards.

Forecast data for housing remain barely changed when compared to the September KEDI forecast.

In 1988, single-family housing is expected to be slightly above the 1987 level. In the first half of the year it will remain depressed and will recuperate somewhat in the second half of 1988 when significant declines in mortgage rates are predicated.

The outlook for multi-family housing is more optimistic: slow but persistent increases in 1988 and afterwards.

## TABLE 1.41
## HOUSING

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Single family housing starts | Multi-family housing starts | Mobile home ship-ments | Permits author-ized | 1-Fam. unit price new** | 1-Fam. unit price exist** |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | tho. $ | tho. $ |
| Year & Qtr. | | | | | | |
| 1986* | 1.179 | .628 | .244 | 1.750 | 112.2 | 98.3 |
| 1987:1* | 1.256 | .539 | .234 | 1.684 | 120.0 | 99.5 |
| 2* | 1.136 | .476 | .232 | 1.547 | 120.9 | 100.6 |
| 3 | 1.154 | .508 | .229 | 1.548 | 127.8 | 108.7 |
| 4 | 1.120 | .552 | .243 | 1.476 | 130.4 | 113.0 |
| YEAR | 1.167 | .519 | .235 | 1.564 | 124.8 | 105.5 |
| % change from '86 | -1.1 | -17.4 | -3.9 | -10.6 | 11.2 | 7.3 |
| 1988:1 | 1.106 | .514 | .230 | 1.540 | 132.2 | 113.2 |
| 2 | 1.217 | .536 | .249 | 1.592 | 135.5 | 115.6 |
| 3 | 1.269 | .537 | .261 | 1.619 | 140.3 | 118.9 |
| 4 | 1.204 | .558 | .244 | 1.575 | 142.6 | 121.6 |
| YEAR | 1.199 | .536 | .246 | 1.582 | 137.7 | 117.3 |
| % change from '87 | 2.8 | 3.4 | 4.9 | 1.1 | 10.3 | 11.3 |
| 1989:1 | 1.137 | .548 | .236 | 1.538 | 144.1 | 122.2 |
| 2 | 1.238 | .597 | .240 | 1.641 | 146.6 | 123.2 |
| 3 | 1.269 | .651 | .281 | 1.756 | 148.3 | 125.0 |
| 4 | 1.218 | .609 | .272 | 1.969 | 150.8 | 127.9 |
| YEAR | 1.216 | .601 | .257 | 1.726 | 147.4 | 124.6 |
| % change from '88 | 1.4 | 12.1 | 4.5 | 9.1 | 7.1 | 6.2 |

*Historical data.

**Average. Not seasonally adjusted.

## 1.42 AUTOMOBILES

See Table 1.42 - page 19

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + .71% | Total Light Truck Sales |
| 0.00% | Imported Car Sales |
| 0.00% | Dealer Inventory |
| - .72% | Total Car Sales |
| - 1.01% | Domestic Car Sales |
| - 1.30% | Shipments |

DESPITE GENEROUS INCENTIVES, MID-SEPTEMBER DATA OF CAR SALES DROPPED BELOW THE EXPECTATIONS OF MANY ECONOMISTS.

Recently released data confirm the current trend in car sales and production, as predicted by KEDI since 1985

The passenger car and light truck cycle is winding down for the rest of the year, and improvement is not expected earlier than the second half of 1988. All indications point to slow sales in the first half of 1988, near-record levels of inventories of unsold cars, and increasing share of imported cars on total car sales.

## TABLE 1.42
## AUTOMOBILES

Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

| INDICATOR | Total car sales | Car sales dom. | Car sales imp. | Dealer car inventory n.s.a. ** | Factory car shipments | Total light truck sales |
|---|---|---|---|---|---|---|
| Unit | mil. | mil. | mil. | mil. | mil. | mil. |
| Year & Qtr. | | | | | | |
| 1986* | 11.5 | 8.2 | 3.2 | 1.5 | 7.5 | 3.7 |
| 1987:1* | 9.6 | 7.0 | 2.6 | 1.9 | 7.7 | 3.4 |
| 2 | 9.5 | 6.8 | 2.7 | 1.9 | 7.5 | 3.5 |
| 3 | 10.1 | 7.0 | 3.1 | 1.8 | 7.6 | 3.6 |
| 4 | 9.4 | 6.7 | 2.9 | 1.8 | 7.3 | 3.3 |
| YEAR | 9.7 | 6.9 | 2.8 | 1.8 | 7.5 | 3.5 |
| % change from '86 | -16.1 | -16.2 | -11.7 | 20.0 | .3 | -6.8 |
| 1988:1 | 9.6 | 6.8 | 2.8 | 1.8 | 7.3 | 3.3 |
| 2 | 10.0 | 7.1 | 2.9 | 1.7 | 7.5 | 3.4 |
| 3 | 11.1 | 7.9 | 3.2 | 1.7 | 8.0 | 3.8 |
| 4 | 10.6 | 7.5 | 3.1 | 1.6 | 7.6 | 3.6 |
| YEAR | 10.3 | 7.3 | 3.0 | 1.6 | 7.6 | 3.5 |
| % change from '87 | 7.0 | .8 | 6.2 | -11.1 | 1.0 | 2.2 |
| 1989:1 | 10.0 | 7.0 | 3.0 | 1.7 | 7.3 | 3.2 |
| 2 | 10.4 | 7.4 | 3.0 | 1.8 | 7.5 | 3.5 |
| 3 | 10.5 | 7.4 | 3.1 | 1.7 | 7.6 | 3.7 |
| 4 | 10.1 | 7.0 | 3.1 | 1.7 | 7.4 | 3.5 |
| YEAR | 10.2 | 7.2 | 3.0 | 1.7 | 7.5 | 3.5 |
| % change from '88 | -.7 | -2.4 | 1.7 | 6.2 | -2.0 | -1.4 |

*Historical data.
**End of period data.

## 1.50 BUDGETS

See Table 1.50 - page 21

IT IS ANTICIPATED THAT THE GRAMM-RUDMAN DEFICIT REDUCTION ACT WILL REMAIN IN FORCE AND WILL NOT BE FURTHER AMENDED.

Future deficit reduction measures will follow the expenditures side (= budget cuts) rather than the receipt side (= tax increases) which will do nothing good but WILL ACCELERATE INFLATION.

Forecast data for Federal deficit remains optimistic. Preliminary data for the 1987 fiscal year, which ended September 30, 1987, indicate an approximate $60 billion reduction when compared to the deficit of the 1986 fiscal year, which was $212 billion. THAT IS A REAL ACHIEVEMENT!

### 1987 FORECAST DATA

Percent Change from September 1987 Forecast

| | |
|---|---|
| + .69% | Federal Income Tax |
| + .28% | State Income Tax |
| - .40% | State Surplus/ Deficit |
| - .45% | Corp. Profit Tax Accrued |
| - .73% | State Local Corp. Tax Accrued |
| - 1.89% | Federal Surplus/ Deficit |

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | FEDERAL Income taxes | FEDERAL Corp. profits tax accru. | FEDERAL Surplus /deficit | STATE AND LOCAL Income taxes | STATE AND LOCAL Corp. profits tax accru. | STATE AND LOCAL Surplus /deficit |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 363.0 | 83.7 | -220.0 | 149.8 | 21.3 | 56.8 |
| 1987:1* | 381.5 | 103.0 | -170.5 | 154.6 | 25.0 | 41.0 |
| 2* | 415.6 | 107.9 | -139.2 | 162.3 | 26.4 | 50.6 |
| 3 | 418.5 | 112.0 | -146.2 | 166.5 | 26.8 | 50.8 |
| 4 | 422.8 | 114.3 | -150.0 | 169.9 | 27.7 | 51.9 |
| YEAR | 409.6 | 109.3 | -151.5 | 163.3 | 26.5 | 48.6 |
| % change from '86 | 12.8 | 30.6 | -31.1 | 9.0 | 24.3 | -14.5 |
| 1988:1 | 424.3 | 115.5 | -146.3 | 171.5 | 28.4 | 53.1 |
| 2 | 429.9 | 120.4 | -142.0 | 173.9 | 30.0 | 54.5 |
| 3 | 436.6 | 121.7 | -138.1 | 178.3 | 31.2 | 56.7 |
| 4 | 448.8 | 124.2 | -134.4 | 181.9 | 32.3 | 58.8 |
| YEAR | 434.9 | 120.5 | -140.2 | 176.4 | 30.5 | 55.8 |
| % change from '87 | 6.2 | 10.2 | -7.4 | 8.0 | 15.1 | 14.8 |
| 1989:1 | 452.1 | 125.9 | -130.1 | 184.4 | 33.2 | 59.3 |
| 2 | 457.2 | 127.8 | -129.5 | 186.2 | 34.7 | 61.0 |
| 3 | 466.4 | 129.9 | -116.3 | 189.7 | 38.3 | 62.1 |
| 4 | 471.6 | 132.7 | -120.5 | 192.0 | 39.1 | 63.6 |
| YEAR | 461.8 | 129.1 | -124.1 | 188.1 | 36.3 | 61.5 |
| % change from '88 | 6.2 | 7.2 | -11.5 | 6.6 | 19.2 | 10.3 |

---

*Historical data.

## 1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + .14% | Average Weekly Earnings |
| - .02% | Comp. of Employees |
| - .50% | Personal Income |
| - .69% | Personal Disp. Income |
| - 2.29% | Corp. After Tax Earnings |
| - 4.79% | Personal Savings |

THE OUTLOOK FOR CORPORATE PROFITS FOR THE REST OF 1987 AND IN 1988 REMAINS OPTIMISTIC.

KEDI's industry forecast shows healthy gains in earnings for most industries, lead by service-producing industries.

In manufacturing, significant improvements are expected in most of the non-durable industries.

In August, Personal Income rose to $3.750 trillion from a revised $3.732 trillion, seasonally adjusted.

Excluding the distorting component, subsidies to farmers, it grew .6% in August after a .3% rise in July. That is a good, healthy trend, and forecast data indicate it will continue for the rest of this year and afterwards.

## TABLE 1.60
## INCOME

Quarterly data are seasonally adjusted at annual rates.

| INDICATOR | Pers. income | Pers. disp. income | Comp. of empl. | Corp. after tax profits | Pers. saving | Avg. week earn. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | $ |
| Year & Qtr. | | | | | | |
| 1986* | 3534.3 | 3022.1 | 2504.9 | 126.8 | 130.6 | 382.0 |
| 1987:1* | 3662.0 | 3125.9 | 2589.9 | 129.0 | 138.4 | 391.2 |
| 2* | 3708.6 | 3130.6 | 2623.8 | 134.9 | 93.2 | 403.1 |
| 3 | 3971.5 | 3206.5 | 2669.8 | 140.1 | 95.3 | 405.6 |
| 4 | 3861.8 | 3268.3 | 2740.7 | 153.2 | 100.2 | 407.1 |
| YEAR | 3801.0 | 3182.8 | 2656.1 | 139.3 | 106.8 | 401.8 |
| % change from '86 | 7.5 | 5.3 | 6.0 | 9.9 | -18.2 | 5.2 |
| 1988:1 | 3925.3 | 3329.5 | 2796.7 | 163.1 | 106.5 | 409.1 |
| 2 | 3980.5 | 3376.7 | 2843.0 | 167.5 | 110.7 | 414.8 |
| 3 | 4052.7 | 3437.8 | 2913.0 | 170.2 | 112.6 | 419.5 |
| 4 | 4268.3 | 3637.6 | 2953.8 | 173.4 | 115.4 | 420.9 |
| YEAR | 4056.7 | 3445.4 | 2876.6 | 168.6 | 111.3 | 416.1 |
| % change from '87 | 6.7 | 8.2 | 8.3 | 21.0 | 4.2 | 3.6 |
| 1989:1 | 4304.8 | 3668.3 | 2982.1 | 178.0 | 117.1 | 422.1 |
| 2 | 4357.8 | 3714.4 | 2981.6 | 182.6 | 120.4 | 425.1 |
| 3 | 4550.1 | 3894.0 | 3051.5 | 187.5 | 121.0 | 426.3 |
| 4 | 4577.7 | 3914.1 | 3084.3 | 191.4 | 125.2 | 427.2 |
| YEAR | 4447.6 | 3797.7 | 3024.9 | 184.9 | 120.9 | 425.2 |
| % change from '88 | 9.6 | 10.2 | 5.2 | 9.7 | 8.6 | 2.2 |

*Historical data.

## 1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + 1.01% | Large Denom. Time Deposits |
| + .16% | Mortg. at S & L Assns. |
| - .78% | Consumer & Demand Deposits |
| - 1.30% | Comm. & Indust. Loans at Banks |
| - 1.70% | Consumer Install. Credit |
| - 3.39% | Time Deposits |

IT IS ANTICIPATED THAT THE FEDERAL RESERVE MONETARY AND CREDIT POLICIES WILL RETURN TO A MORE RELAXED POSITION IN THE SECOND QUARTER OF 1988.

However, the growth of aggregates of money supply is expected to continue rapidly, though not at such a percipitous speed as in 1987 and preceding years.

KEDI forecast calls for a general slowdown in credit aggregates in 1988: less of growth in consumer credit, commercial and industrial loans, and mortgages. However, the short-term credit is expected to increase at approximately the same percentage in 1988 as it did in 1987.

## TABLE 1.70
## MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

| INDI-CATOR | Currency and demand deposits M1, s.a. | Time deposit adjust. M2, s.a. | Cons. instal. credit n.s.a. ** | Comm.& indus. loans at banks s.a. | Large denom. time dep. s.a. | Mortg. at S & L Assns. n.s.a. |
|---|---|---|---|---|---|---|
| Unit | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ | bil. $ |
| Year & Qtr. | | | | | | |
| 1986* | 673.2 | 2650.8 | 577.8 | 517.6 | 447.1 | 553.1 |
| 1987:1* | 738.2 | 2824.3 | 579.5 | 520.4 | 450.1 | 547.4 |
| 2* | 750.1 | 2830.3 | 585.3 | 526.1 | 465.0 | 550.8 |
| 3 | 751.3 | 2860.1 | 602.4 | 531.6 | 472.6 | 554.9 |
| 4 | 758.7 | 2904.3 | 612.3 | 541.0 | 480.2 | 558.3 |
| YEAR | 749.6 | 2854.8 | 612.3 | 541.0 | 480.2 | 558.3 |
| % change from '86 | 11.3 | 7.7 | 6.0 | 5.3 | 7.4 | .9 |
| 1988:1 | 770.2 | 2955.7 | 618.6 | 546.0 | 489.6 | 562.9 |
| 2 | 779.4 | 3036.7 | 626.4 | 550.4 | 492.9 | 566.7 |
| 3 | 790.9 | 3083.9 | 633.9 | 558.3 | 497.4 | 576.7 |
| 4 | 807.4 | 3130.8 | 651.2 | 560.1 | 508.3 | 581.4 |
| YEAR | 787.0 | 3051.8 | 651.2 | 560.1 | 508.2 | 581.4 |
| % change from '87 | 5.0 | 6.9 | 6.4 | 3.5 | 5.8 | 4.1 |
| 1989:1 | 811.3 | 3189.5 | 663.2 | 571.4 | 508.7 | 584.6 |
| 2 | 819.2 | 3223.7 | 670.0 | 510.1 | 513.9 | 589.7 |
| 3 | 829.5 | 3303.2 | 684.9 | 573.5 | 519.6 | 590.4 |
| 4 | 840.3 | 3336.5 | 700.3 | 587.5 | 536.4 | 607.0 |
| YEAR | 825.1 | 3263.2 | 700.3 | 587.5 | 536.4 | 607.0 |
| % change from '88 | 4.8 | 6.9 | 7.5 | 4.9 | 5.5 | 4.4 |

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates. **Revised series

## 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

INTEREST RATES ARE EXPECTED TO STABILIZE AT NOVEMBER-DECEMBER LEVELS THROUGHOUT THE FIRST QUARTER OF 1988, AND THEN START GRADUALLY DECLINING FOR THE REST OF 1988.

KEDI forecast on the U.S. interest rates calls for temporary increases throughout this month and November.

It is anticipated that interest rates in key countries will not be increasing enough to force the U.S. interest rates further upwards.

Forecast data show possible disturbances mainly in the stock market for the rest of the year, and the absence of traditional, election year's push-up of prices of stocks at the beginning of 1988. Resumption of a more steady, trend is stock the stock market is expected to start in 1988:2.

Forecast data of markets for bonds are a bit more optimistic when compared to those for the stock market, mainly due to the persisting demand of overseas investors. The 1988 supply of U.S. bonds is expected to be slow, approximately at 1987:3 levels. Some shifts of funds from the stock market to bonds markets are anticipated.

1987
FORECAST
DATA

Percent Change
from
September 1987
Forecast

| | |
|---|---|
| + 6.58% | Prime Rate |
| + 4.19% | Treas. Bills 3 mo. Yield |
| + 2.18% | Conv. Mortg. Rate |
| - 3.76% | Aaa Corp. Bond Rate |
| - 3.32% | S & P's 500 Avg. |
| - 3.76% | 20 Year Govt. Bond Yield |

### TABLE 1.80
### INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

| INDICATOR | Treas. bills 3 mo. yield | Prime rate | Conv. mortg rate | Aaa corp. bond rate | 30 yr. Govt. bonds yield | S & P's 500 Avg 1941-43 = 10 |
|---|---|---|---|---|---|---|
| Unit | % | % | % | % | % | |
| Year & Qtr. | | | | | | |
| 1986* | 5.97 | 8.33 | 9.82 | 9.02 | 7.80 | 236.34 |
| 1987:1* | 5.53 | 7.50 | 9.06 | 8.37 | 7.87 | 279.30 |
| 2* | 5.66 | 8.05 | 8.98 | 9.17 | 8.53 | 293.27 |
| 3 | 6.57 | 8.54 | 10.41 | 9.32 | 9.51 | 321.50 |
| 4 | 6.89 | 9.31 | 10.95 | 10.19 | 10.29 | 291.80 |
| YEAR | 6.16 | 8.35 | 9.85 | 9.26 | 9.05 | 296.47 |
| % change from '86 | 3.2 | .2 | .3 | 2.7 | 16.0 | 25.4 |
| 1988:1 | 6.84 | 9.55 | 10.72 | 9.86 | 10.13 | 278.32 |
| 2 | 6.67 | 9.30 | 10.21 | 9.58 | 6.87 | 285.60 |
| 3 | 6.42 | 8.85 | 9.93 | 9.38 | 8.94 | 291.89 |
| 4 | 6.20 | 8.71 | 9.85 | 9.21 | 8.36 | 295.71 |
| YEAR | 6.53 | 9.10 | 10.18 | 9.51 | 8.57 | 287.88 |
| % change from '87 | 6.0 | 9.0 | 3.3 | 2.6 | -5.2 | -2.9 |
| 1989:1 | 6.05 | 8.25 | 9.85 | 9.14 | 8.26 | 292.40 |
| 2 | 5.94 | 8.50 | 9.76 | 9.12 | 8.20 | 287.35 |
| 3 | 6.12 | 8.61 | 9.61 | 9.27 | 8.27 | 286.90 |
| 4 | 6.29 | 8.75 | 9.42 | 9.38 | 8.61 | 291.20 |
| YEAR | 6.10 | 8.53 | 9.66 | 9.23 | 8.33 | 289.46 |
| % change from '88 | -6.6 | -6.3 | -5.1 | -2.9 | -2.8 | .5 |

*Historical data.

## 2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, comparisons of accuracy of Personal Consumption Expenditures on Services (bil. $) has been selected for comparison. Actual numbers for 1985 and 1986 are in the Survey of Current Business, August 1987 issue, Table 1.1 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data have been obtained from data in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1986).

### TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
(Personal Consumption Expenditures on Services, bil. $)
Actual figure: 1458.0

| Forecaster (and page in source) | Date of Forecast | Forecast | Accuracy (%) |
|---|---|---|---|
| Manufacturer Hanover Trust Co., p. 45 | 12/85 | 1378.3 | -5.5 |
| UCLA Business Forecasting Project, p. 46 | 12/85 | 1376.7 | -5.6 |
| Research Seminar in Quantitative Economics, Univ. of Michigan, p. 49 | 12/12/85 | 1381.2 | -5.3 |
| Metropolitan Life Insurance. p. 55 | 1/1/86 | 1394.3 | -4.4 |
| Georgia State Univ., p. 66 | 2/86 | 1407.5 | -3.5 |
| KEDI, Inc., p. 67 | 2/1/86 | 1421.6 | -2.5 |
| Standard & Poor's Corporation, p. 58 | 1/16/86 | 1369.8 | -6.0 |
| Money Market Services, Inc., p. 64 | 1/27/86 | 1410.4 | -3.3 |

## 3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

| Table Number | Data Series | Source |
|---|---|---|
| 1.11 Selected Indicators of Real Growth I. | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Index of industrial production | IIP, p. 2. |
| | Unemployment rate | SCB, Blue pages |
| | Capacity utilization rate | FRB, Table 2.11 |
| | Private housing starts | SCB, Blue pages |
| | Car sales | SCB, Blue pages |
| 1.12 Selected Indicators of Real Growth II. | Personal Cons. expend: Durables, | SCB, Table 1.1 |
| | Nondurables | SCB, Table 1.1 |
| | Services | SCB, Table 1.1 |
| | Retail sales: Total | SCB, Blue pages |
| | Durables | SCB, Blue pages |
| | Nondurables | SCB, Blue pages |
| 1.12 Real GNP | Gross national product, 1982 $ | SCB, Table 1.2 |
| | Personal consumpt. expenditures | SCB, Table 1.2 |
| | Gross private dom. investment | SCB, Table 1.2 |
| | Net exports | SCB, Table 1.2 |
| | Federal purchases | SCB, Table 1.2 |
| | State and local purchases | SCB, Table 1.2 |
| 1.21 Prices | Consumer price index | SCB, Blue pages |
| | Producer price index | SCB, Blue pages |
| | Implicit price deflators: GNP | SCB, Table 7.1 |
| | Personal consumpt. expenditures | SCB, Table 7.1 |
| | Federal purchases | SCB, Table 7.1 |
| | State and local purchases | SCB, Table 7.1 |
| 1.22 Nominal GNP | Gross national product | SCB, Table 1.1 |
| | Personal consumpt. expenditures | SCB, Table 1.1 |
| | Gross private dom. investment | SCB, Table 1.1 |
| | Net exports | SCB, Table 1.1 |
| | Federal purchases | SCB, Table 1.1 |
| | State and local purchases | SCB, Table 1.1 |

(Table 3.00 continues on the following page.)

## TABLE 3.00

## HISTORICAL DATA SOURCES (CONTINUED)

| Table Number | Data Series | Source |
|---|---|---|
| 1.30 Employment and Labor | Population | SCB, Blue pages |
| | Civilian labor force | SCB, Blue pages |
| | Employment | SCB, Blue pages |
| | Agriculture | SCB, Blue pages |
| | Non-agriculture | SCB, Blue pages |
| | Unemployment rate | SCB, Blue pages |
| 1.41 Housing | Single-family housing starts | SCB, Blue pages |
| | Multifamily housing starts | SCB, Blue pages |
| | Mobile home shipments | SCB, Blue pages |
| | Permits authorized | SCB, Blue pages |
| | 1-family unit price, new | FRB, Table 2.14 |
| | 1-family unit price, existing | FRB, Table 2.14 |
| 1.42 Autos | Passenger cars: Total sales | SCB, Blue pages |
| | Domestic | SCB, Blue pages |
| | Imported | SCB, Blue pages |
| | Dealers inventories | SCB, Blue pages |
| | Factory shipments | SCB, Blue pages |
| | Light-duty truck sales | SCB, Blue pages |
| 1.50 Federal State & Local Budgets | Federal govt: Income taxes | SCB, Table 3.2 |
| | Corporate profit tax accruals | SCB, Table 3.2 |
| | Surplus/Deficit | SCB, Table 3.2 |
| | State & local govt:Income taxes | SCG, Table 3.3 |
| | Corporate profit tax accruals | SCG, Table 3.3 |
| | Surplus/Deficit | SCB, Table 3.3 |
| 1.60 Income | Personal income | SCB, Table 2.1 |
| | Personal disposable income | SCB, Table 2.1 |
| | Compensation of employees | SCB, Table 1.11 |
| | Corporate after tax profits | SCB, Table 1.11 |
| | Personal saving | SCB, Table 2.1 |
| | Average weekly earnings | SCB, Blue pages |
| 1.70 Money and Credit | Currency and demand deposits, M1 | FRB, Table 1.21 |
| | Time deposits, adjusted, M2 | FRB, Table 1.21 |
| | Consumer installment credit | FRB, Table 1.55 |
| | Commercial and industrial loans | FRB, Table 1.23 |
| | Large denomination time deposits | FRB, Table 1.21 |
| | Mortgages at S&L Associations | FRB, Table 1.54 |
| 1.80 Interest Rates, Yields, & Securities Prices | Treasury bills (3 mo) yield | FRB, Table 1.35 |
| | Prime rate | FRB, Table 1.33 |
| | Conventional mortgage rate | FRB, Table 1.53 |
| | Aaa corporate bonds rate | FRB, Table 1.35 |
| | 20 years government bonds yield | FRB, Table 1.35 |
| | Standard & Poor's 500 average | FRB, Table 1.36 |